HOUSING AFFORDABILITY
AND THE ELDERLY:

DEFINITION, DIMENSIONS,
POLICIES

Gerontology

College of Public and
Community Service

University of
Massachusetts
at Boston
Boston, MA 02125

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Michael E. Stone, Ph.D.

Center for Community Planning
College of Public and Community Service
University of Massachusetts at Boston

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CHAPTER 1

INTRODUCTION

This report is about the housing affordability problems of elderly households in the United States -- what the problem is, how serious it is, and what should be done about it.

Most housing problems faced by the elderly have their roots in the problem of affordability. Issues involving physical conditions and space, security of tenure, community viability, the amount, type and location of new construction, and the allocation of public and private financial resources to housing -- that is, not just the obvious cost problems of rents, utilities, property taxes, maintenance and repairs, interest rates and sales prices -- are ultimately traceable to the squeeze between incomes and housing costs.

At the same time it must be recognized, though, that the elderly also confront problems of housing discrimination and of inappropriate and insensitive housing designs and planning that are not ultimately reducible to the affordability problem. Although not directly addressed in this report, attention to such issues certainly must be part of a full accounting and full solution to the housing problems of older people.

In this report the housing affordability problem of elderly households in the United States is examined through the lens of a concept called "shelter poverty" -- a sliding scale of affordability reflecting the interaction among incomes, shelter costs, and the cost of nonshelter necessities. The shelter poverty standard of affordability demonstrates that many elderly households, especially those of low income, can actually afford much less than the traditional 25 percent of income (and more recent 30 percent of income). Indeed, some households can literally afford nothing for housing if they are to meet their nonshelter needs at even a minimum level of adequacy. On the other side, though, many higher income elderly can actually afford rather more for housing than the traditional standard would suggest.

Detailed application of the shelter poverty affordability concept to data from the 1985 American Housing Survey (released late in 1988) actually leads to a somewhat more modest figure for the number of elderly paying more than they can afford for housing than does the conventional 25 percent of income standard.[1] In 1985, 31 percent of elderly households were shelter poor compared with 45 percent paying more than the traditional standard. More importantly, though, the shelter poverty approach reveals a rather different distribution of the affordability problem:

a greater proportion of low income elderly households have affordability problems, and the average gap between what they are paying and what they can afford is greater than the traditional approach suggests; on the other hand, a considerably lower proportion of higher income elderly households have affordability problems than is indicated by the conventional standard. Shelter poverty among the elderly is disproportionately a problem faced by elderly women living alone. In addition, not surprisingly, black and Hispanic elderly have considerably higher rates of shelter poverty than white elderly.

The analysis clearly reveals a problem of substantial magnitude, depriving nearly a third of our older citizens of the capacity to live out their years in security and modest comfort. Theirs is a great unmet need, which cannot continue to be ignored. The problem is so deep and extensive that it can truly be overcome only by comprehensive strategies that begin to address the underlying causes.

The factors determining the housing costs of elderly households are, for the most part, the same factors that determine the housing costs of all households. The dependence on debt financing, the speculative characteristics of housing and land tenure and of private development, and the heavy reliance of local government on property taxes mean that housing costs are generally high in absolute terms and have much less variance than incomes. The housing cost burdens of present and future elderly will thus be relieved most effectively by a comprehensive mix of housing strategies that consist primarily of broad-gauged innovations in housing regulation, ownership, financing, and production, but which provide great flexibility and choice for planners, providers, and residents themselves to target the affordability needs of both elderly and nonelderly households in particular locales and circumstances.

At the same time, it must be acknowledged that the housing affordability problem of elderly households is a consequence of the maldistribution of income as well as flaws in the private housing market and government housing programs. The popular impression of economically secure elderly fails to take into account the diversity of elderly incomes and the inadequacies of the official poverty standard as a measure of adequacy. Thus policies must be adopted that increase the incomes of the lowest income elderly. Together with policies to assure long-term reduction and stabilization of housing costs, such income policies can be a cost-effective and noninflationary answer to the affordability problems of most elderly.

As a nation we must move toward a new social commitment. This commitment must include recognition, and ultimately codification, of a new set of rights -- of positive rights -- that assure all people of the basic

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material necessities of life. The housing affordability problem faced by the older members of our society reaches beyond economics, beyond politics, to our common morality, and its solution must at once be economic, political and moral.

CHAPTER 2

CHARACTERISTICS OF ELDERLY HOUSEHOLDS

Trends 1970-1988

In 1988 there were 19.5 million elderly households (householder 65 years or older) in the United States, an increase from 12.4 million in 1970 and 16.3 million in 1980. (See Fig. 2.1.) The elderly comprise 21.4 percent of all households, compared with 19.5 percent in 1970 and 20.3 percent in 1980 (Fig. 2.2).

The elderly are overwhelmingly homeowners: 75 percent of all elderly households own homes, compared with a 61 percent homeownership rate among nonelderly. The 14.6 million elderly homeowners are 25 percent of all homeowner households, while the 4.9 million elderly renters are just 15 percent of all renters (Fig. 2.2).

The steady increase in elderly households, both in absolute number and as a percentage of all households, has not occurred proportionately among homeowners and renters. The number of elderly renters has changed remarkably little over the past two decades, remaining between about 4 and 5 million (Fig. 2.1). Meanwhile the number of nonelderly renters has risen sharply, so that the elderly have declined from more than one sixth of all renters during the 1970s to only one seventh of all renters by the late 1980s (Fig. 2.2).

By contrast, over the same period the number of elderly homeowners has nearly doubled, from 8.4 million in 1970 to 14.6 million by 1988 (Fig. 2.1). Growing at a more rapid rate than nonelderly homeowners, elderly homeowners have increased from about one fifth of all homeowners in 1970 to one quarter by the mid-1980s (Fig. 2.2).

Taken together, the trends in elderly renters and homeowners have meant a fairly steady rise in the proportion of elderly who are homeowners. During the 1970s, the elderly homeownership rate increased substantially from 67.6 percent in 1970 to 72.2 percent in 1980, while the homeownership rate among nonelderly households increased much more slowly, from 61.7 percent to 63.9 percent.

During the 1980s, when great public attention was focused on the decline in the overall homeownership rate (from 65.6 percent in 1980 to 63.5 percent in 1985 followed by a slight upturn), and especially on diminished

homeownership opportunities for young households, the homeownership rate of the elderly actually increased from 72.2 percent in 1980 to 75.1 percent in 1987 (after levelling off from 1981 to 1985). In comparison, the homeownership rate of nonelderly declined significantly from its 1980 peak to 63.9 percent in 1980 and to 60.9 percent by 1985, where it has since stabilized. The very high rate and continuing rise of homeownership among the elderly is a consequence, of course, of the great suburban homeownership boom of the two decades following World War II, with the young homebuyers of that period now entering their later years.

The high rate of homeownership among elders as a whole does, however, mask vast differences among these households in terms of their housing situations. The two predominant types of elderly households are married couples, who account for 43 percent of all elders, and women living alone, who are 36 percent of elderly households. Nearly 90 percent of elderly married couples own their own homes; the median income of those who own was $18,400 in 1985. By contrast, 60 percent of elderly women living by themselves are homeowners, and their median income was just $8,250 in 1985. Married-couple elders account for more than 50 percent of all elderly homeowners, but only a little over 20 percent of elderly renters; single elderly women are less than 30 percent of elderly homeowners, but 54 percent of elderly renters. Of elderly renters, married couples had a median income in 1985 of about $12,650, considerably below that of married-couple homeowners, but nearly twice the $6,450 median of single women renters.

Much fewer in number are elderly men living alone, who comprise about 10 percent of all elderly households. They have about the same rate of homeownership as their female counterparts, and only slightly higher median incomes, so that the housing situations of male elders living alone is, on average, only a little better than for women, although elderly men are much less likely to be living alone.

About 8 percent of elderly households consist of women without a spouse but with at least one other person in the household -- usually a relative, such as a sibling or a very old parent, but in some instances a boarder or boarders. They are not as well off, on average, as married-couple elderly households, but have considerably higher median incomes than elderly women living alone. Only 3 percent of elderly households are made up of men in such situations; their incomes are comparable to married-couple elderly. About 75 percent of two-or-more person nonspouse elderly households are homeowners (both for female and male householders), well below the 90 percent of married couples, but far above the 60 percent of 1-person elderly households.

Over the past two decades there has been a fairly steady increase in the proportion of elderly living alone, among both renters and homeowners. In 1970, 56.7 percent of elderly renters were 1-person households; by 1980, they

had increased to 64.6 percent and by 1988 to 70.1 percent. Among owners the rise has been from 32.2 percent in 1970 to 35.6 percent in 1980 and a peak of 37.5 percent by 1985. With lower incomes, on average, and no one else to share their housing costs, the rising share of such households points toward the major locus of housing affordability problems among the elderly: 1-person households, 80 percent of whom are women.

Although the homeownership rate of elderly living alone increased from about 54 percent in 1970 to about 61 percent by the late 1908s, this increase was much less than the increase among married-couple elders, from 78 percent to 89 percent. Among elderly women householders living with people other than their spouse, the homeownership rate has fluctuated between 70 and 75 percent for most of the period since 1970. And, interestingly, among the relatively small group of elderly men householders with co-residents but not a spouse, the homeownership rate peaked at 80 percent in 1978 and has since declined to 75 percent, a rate not experienced since the early 1970s.

Incomes 1985, All Races

The March 1987 and March 1988 Current Population Surveys (CPS) provided the data on demographic characteristics of households, but the CPS obtains no housing-cost data. At the time of this research, the 1985 American Housing Survey (AHS), issued late in 1988, was the most current source of detailed housing cost data. As the first step in analyzing the housing affordability situation of elderly households, it is useful to examine the AHS data on incomes and housing costs of elderly households by tenure and household type.

As indicated above, 1-person elderly homeowners have, on average, slightly higher incomes than 1-person renters (Fig. 2.5). Elderly living alone comprise about 45 percent of all elderly households, and the overwhelmingly majority of these single elders have incomes under $10,000 a year. Female renters are the poorest: they have a median income of $6,500, and 80 percent below $10,000; male homeowners are the best off, but their median income is still only $9,800 (Fig. 2.9). Single renters are much more likely than owners, though, to have very low incomes of under $5,000: 37 percent of renters, compared with 24 percent of owners fall into this income class. At the other end of the income distribution, there are small subgroups of 1-person owner and renter households that have incomes of $20,000 or more; not surprisingly, the percentage of 1-person owners with high incomes is considerably greater than that of renters -- 15 percent versus 8 percent.

Although single elderly women are, on average, somewhat poorer than single elderly men, among homeowners the only substantial female-male difference in income distribution is the over-representation of women in the

under $5,000 income class: women are 80 percent of 1-person elderly homeowners, but 85 percent of 1-person elderly homeowners under $5,000. Among 1-person elderly renters the disproportion also exists but is smaller: 79 percent vs. 82 percent.

Elderly households with 2 or more persons not only have higher incomes, on average, than 1-person households, but much wider income variations within each tenure and much bigger income differences between owners and renters (Figs. 2.6 and 2.9). The income distribution of elderly homeowner households with 2 persons or more is essentially bimodal: about 56 percent have incomes below $20,000, clustered around $12,000; of the 44 percent in the high income group, the midpoint of income is about $30,000. Among renter households with 2 persons or more, nearly 65 percent have incomes of less than $15,000, but 24 percent do have incomes of $20,000 or more. Such broad and complex income distributions mean that there is great danger in drawing conclusions based upon median incomes. For example, despite the high median incomes of 2-or-more person-elderly homeowners, there is a substantial low-income subgroup which is likely to have housing affordability problems revealed only by examining detailed income and housing cost distributions.

The income distributions by household type for 2-or-more-person households again reveal that female-headed households are more concentrated at lower incomes than are married-couple and male-headed households. Among homeowners the disproportion of female-headed households occurs up to $10,000; so-called "other female households" are 14 percent of all 2-or-more-person elderly homeowners, but 28 percent of those under $5,000 and 20 percent of those between $5,000 and $9,999. The pattern is similar but more concentrated at the lowest incomes among elderly renters: other female-headed households are 24 percent of 2-or-more person elderly renters, but 44 percent of those under $5,000, and 26 percent of those with incomes of $5,000 to $9,999.

Finally, comparison of elderly with nonelderly income distributions reveals that among both homeowners and renters the elderly have much lower incomes on average, and that the elderly owner-renter disparities have their exact counterpart among nonelderly households (Figs. 2.7 and 2.8). Two thirds of elderly homeowners have incomes less than $20,000, while over three quarters of nonelderly homeowners have incomes of $20,000 or more. Nearly two thirds of elderly renters have incomes of $10,000 or less, while almost 70 percent of nonelderly renters have incomes of $10,000 or more. Elderly homeowners had a median income in 1985 of about $13,730, just 45 percent of the median of nonelderly homeowners; elderly renters had a median of $7,860, which was 48 percent of the median for nonelderly renters. As we shall see, the income decline experienced by both elderly homeowners and elderly renters has far greater impact on elderly renters, not only because their incomes are, on average, much lower those of homeowners, but also because they generally

have substantially higher housing costs.

Housing Costs 1985, All Races

Housing costs for elderly households in 1985 demonstrate homeowner-renter differences that are just the opposite of the income patterns: homeowners, on average, have considerably lower housing costs but considerably higher incomes than renters. (Compare Figs. 2.9 and 2.10.) For 1-person elderly households, median homeowner housing costs were under $180 a month in 1985, while for renters they were over $240 a month, about one-third higher; among households of 2 persons or more, the owners' median cost was about $220 a month compared with the renters' cost of about $340, more than 50 percent higher (Fig. 2.10). More than three quarters of all elderly homeowners pay less than $300 a month for housing; about 60 percent of elderly renters pay under $300, but a quarter pay $400 or more a month (Fig. 2.11).

Although elderly renters and homeowners pay, on average, considerably less than their nonelderly counterparts, most elderly renters find themselves competing in the same private housing market as nonelderly renters. Of the 5.1 million elderly renters, about 1.4 million (27 percent) are insulated from the effects of the housing market by living in public housing or subsidized private housing. By contrast, nearly all elderly homeowners are effectively outside of the private market because most of them bought and financed their housing before the inflation of house prices and interest rates. Of the 13.8 million elderly homeowners, fewer than 2.4 million (17 percent) have mortgages on their houses; and of those who do have mortgages, the median year the mortgage originated was 1975, the median interest rate is 7.6 percent, the median mortgage payment for principal and interest is $170 a month, and the median mortgage balance is less than $12,700. Most private rental housing, by contrast, is mortgaged, and the rents generally reflect recent or current housing and mortgage market conditions, so that elderly renters must pay what this market demands.

Further confirmation of these differential effects of the private housing market is revealed by comparing the housing costs of elderly homeowners and renters with costs of the nonelderly (Figs. 2.12 and 2.13). Nonelderly homeowners show an extremely broad distribution of housing costs, corresponding to the tremendous change in house prices and mortgage interest rates over the past two decades; elderly homeowners, on the other hand, have the narrowest range of housing costs, reflecting, as already mentioned, the benefits of having been able to purchase houses when prices and interest rates were relatively low.

By comparison, elderly and nonelderly renters have housing cost distributions that are much closer to one another, and that are considerably

broader than the cost distributions of elderly homeowners, but somewhat less broad than that for nonelderly homeowners. Only at the very low cost end is there a much higher proportion of elderly renters than nonelderly, which is a direct consequence of the higher proportion of elderly renters who have subsidized housing (27 percent) than nonelderly (11 percent). Subtracting out renter households that receive housing subsidies, we see that elderly in the private rental market have virtually the same housing costs as nonelderly and the highest costs of all elderly households (Fig. 2.14). Thus, even though the elderly have disproportionately benefited from government housing subsidies, there are 3.7 million elderly households that live in private rental housing -- comprising nearly 20 percent of all elderly. They face some of the most severe housing affordability problems of all elderly, as they have not only the highest housing costs but also some of the lowest incomes.

Finally, an examination of elderly housing cost distributions by household size as well as tenure refines the initial impressions provided by the median costs. Among 1-person elderly, 46 percent of homeowners in 1985 had total monthly housing costs of $100-199 and 84 percent had costs of less than $300 a month, while among renters, the modal housing cost was also $100-199, but just 31 percent were in this range, while 37 percent paid $300 a month or more for housing. Among 2-or-more-person elderly households, elderly homeowners showed only slightly less concentration at very low costs than 1-person owners. The modal cost was also $100 - $99, with 39 percent in this range; 72 percent had total housing costs of less than $300 a month, and 85 percent were below $400 a month. Elderly renter households of 2 persons or more, by contrast, had a broader distribution of housing costs: only 41 percent paid less than $300 a month; 37 percent paid $400 a month or more; 20 percent paid $500 or more.

In sum, while elderly renters of each household type had higher median housing costs than corresponding homeowners, renters' cost distributions also had greater breadth and complexity. Full understanding of the extent and distribution of the housing affordability problem among elders, especially elderly renters, will thus require examination of higher-order distributions of housing costs by income and household type along with application of explicit standards of affordability. The results of such an analysis are presented in Chapter 4.

Black and Hispanic Elderly, 1985

In 1985 there were 1.7 million households with a black elderly householder and 600,000 with an Hispanic elderly householder. Black elderly households accounted for 9.1 percent of all elderly, compared with nonelderly households with black householders comprising 11.8 percent of all nonelderly. Hispanic elderly were just 3.2 percent of all elderly households, while households with a

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nonelderly Hispanic householder were 6.4 percent of all nonelderly. The lower proportions of black and Hispanic elderly householders than nonelderly householders are largely a result of lower life expectancies, although disproportionate immigration by younger householders is also a factor in the Hispanic disparity.

Black and Hispanic elderly households are even more concentrated at low incomes than are all elderly households. The median income of black elderly in 1985 was $7,440, and for Hispanic elderly it was $8,540, compared with $11,730 for all elderly (Fig. 2.15). Most striking is the very low income concentration: 36 percent of black elderly and 27 percent of Hispanic elderly are below $5,000, compared with 17 percent of all elderly; while blacks are 9 percent of all elderly households, nearly 20 percent of elderly below $5,000 are black; Hispanics are 3 percent of all elderly, but 5 percent of elderly below $5,000 are Hispanic. In the $5,000-9,999 income class, the proportions of black and Hispanic elderly are very close to their overall proportions of elderly; for higher income classes, though, black and Hispanic elderly are significantly underrepresented (Fig. 2.16).

By household size, there is not much variation among elderly by race/ethnicity: 49 percent of black elderly and 46 percent of Hispanic elderly households are 1-person households, compared with 46 percent of all elderly households. By household type, though, we do find some significant differences. Among 1-person elderly, single black and Hispanic men are at higher proportions than for all races: 14 percent of black elderly and 12 percent of Hispanic elderly are single men, while a little over 9 percent of all elderly are single men. By contrast, single women show little variation: 35 percent of black elderly and 34 percent of Hispanic elderly, compared with 36 percent of all elderly households, are women living alone. That is, black and Hispanic women have the same likelihood of living alone when they grow old as do white women, but black and Hispanic men are more likely to end up living alone than are white men.

Among elderly households with 2 persons or more, there are also notable differences by household type. Married couples comprise only 31 percent of black elderly households and 36 percent of Hispanic elderly, compared with 43 percent of all elderly. Offsetting these figures, though, 16 percent of black elderly and 12 percent of Hispanic elderly households are 2-or-more person female-headed households, compared with just 8 percent of all races. That is, although elderly black and Hispanic women are less likely than elderly white women to be married, they are no more likely than elderly white women to be living alone, due to a higher incidence of sharing their homes with nonspouse others. Among elderly Hispanic men this same tendency is apparent, but not among elderly black men.

When we examine the income characteristics of black and Hispanic

elders by household size and type, we find the same patterns as for all races: among 1-person elderly households, women are considerably poorer on average than men; among 2-or-more-person elderly households, other female headed households are poorer than both married-couple and other male headed households. Within these patterns, though, there are some significant variations. For example, among single black elderly the male-female gap is quite small (median income of $4,820 vs. $4,240), while among single Hispanic elderly it is quite large (medians of $7,070 vs. $4,800). Among 2-or-more-person black elderly, the nearly 300,000 other female-headed households have a median income of $8,900, which is fully $4,000 below that of black married-couple elderly and $5,000 below that of other male-headed households; for Hispanic elderly, other female-headed households have a much higher median of $11,200, only $1,000 below the married-couple median and $2,000 below the other male-headed median (Fig. 2.15).

Moving next to tenure characteristics of black and Hispanic elderly, variations in homeownership rates are found to be quite significant and have considerable implications for housing affordability. In 1985, nearly 61 percent of elderly black householders were homeowners, while only 49 percent of elderly Hispanics were homeowners, compared with 73 percent of all homeowners (Fig. 2.17). The relatively high rate of homeownership among black elders is partly a reflection of the fairly high proportion of rural elderly blacks and partly a result of the growth of black homeownership in many older urban areas from the late 1950s through the early 1970s. By contrast, elderly Hispanics have been much more concentrated in urban areas where possibilities for homeownership were more limited even before the recent house price inflation. It is noteworthy that nonelderly black and Hispanic households have low homeownership rates that differ very little (40 percent and 38 percent, respectively), compared with a 61 percent rate for all nonelderly; these figures suggest that over time the homeownership rates of both black and Hispanic elderly will decrease and that the differences between them will diminish.

The aggregate homeownership rates for black and Hispanic elderly do, however, mask some differences by household type, differences which generally match those for all races: the rates for 2-or-more person elderly are considerably higher than for single elderly; and among households of 2 or more, the highest homeownership rates are for married couples. Nearly 78 percent of black and almost 66 percent of Hispanic elderly married couple households are homeowners. Among black elders, these high rates are also shared by other 2-or-more-person households, while 1-person black elderly have homeownership rates of less than 50 percent. All Hispanic elderly other than married couples have homeownership rates well below 50 percent.

These tenure differences by household type closely correspond with income differences. Black elderly 1-person renter households are the poorest of all elderly households, with a median income of less than $3,900 in 1985 (Fig.

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2.18). Fully one-sixth of all elderly black households (nearly 300,000) are single elderly renters with incomes of less than $5,000, and nearly three quarters of this group are women. More than 60 percent of single black elderly with incomes of under $5,000 are renters, while in all higher income classes a slight majority are homeowners.

Among black elderly households with 2 persons or more, homeowners have a median income of over $13,000, while renters have a median income of only a little over $8,000; with a homeownership rate of 74 percent among such households, homeowners are an overwhelming majority in all income classes except for that income class under $5,000, where there are almost as many renters and homeowners. Although most elderly black homeowner households of 2+ persons have incomes of under $15,000, more than a quarter do have incomes of $20,000 or more; these 175,000 households comprise about 10 percent of all elderly black households.

Hispanic elderly households of one person do not show the same owner-renter disparity as blacks. Indeed, single Hispanic renters, with a median income of $5,200, are not as poor as single black renters on average, and have incomes comparable to single black and Hispanic homeowners. However, elderly single Hispanic women renters and homeowners have median incomes of less than $5,000, much lower than elderly single Hispanic male homeowners and renters (Fig. 2.18).

Elderly Hispanic households of 2-or-more persons have significant homeowner-renter income differences. Apart from the very small group of other male-headed households, the homeowners have median incomes of close to $15,000, while renters have medians of little over $9,000. Elderly Hispanic homeowner households of 2-or-more persons have considerably greater income variance than corresponding black households. Nearly 39 percent of such elderly Hispanics households have incomes of $20,000 or more, compared with 27 percent of such black households; they are about 12 percent of all elderly Hispanic households.

The final step of this overview of the characteristics of black and Hispanic elderly households is a summary examination of their housing costs. Black and Hispanic elderly have median housing costs somewhat lower than for all elderly as a group. Among homeowners, black elderly have a median housing cost of $186 and Hispanics $177, compared with $200 a month for all elderly. Among renters, the median housing cost for black elderly is $183, for Hispanic elderly $245, and for all elderly $270. The relatively low rent for elderly black renters is, in part, due to the higher proportion of rural black elderly; it is also partially due to the higher proportion of extremely low-income (under $5,000) black renters in subsidized housing (42 percent, vs. 31 percent of all extremely low-income Hispanics and 31 percent of extremely low income of all races). Also, the slightly lower median cost for elderly black renters compared with

homeowners is misleading, since renters are predominantly 1-person households and homeowners predominantly 2-or-more person households; examining costs by household type, we shall see, eliminates this effect.

As with incomes, the housing costs of black and Hispanic elderly display the same overall patterns as all elderly. For elderly of each household type, renters have higher median housing costs but lower median incomes than homeowners; 1-person elderly have lower housing costs than 2-or-more-person households (Fig. 2.19).

For elderly homeowners, single black women had a median monthly housing cost in 1985 of $158 a month, and single Hispanic women $131, compared with $179 for all elderly single female homeowners. For married couples, the median cost for black homeowners was $214; for Hispanics, $206; and for elderly of all races, $220. There is no immediately apparent explanation for the discrepancy between the wide variation in housing costs among elderly single women, on the one hand, and the close correspondence of housing costs among married couple elderly homeowners, on the other.

Among elderly renters, the median housing cost for single black women is $161, for Hispanics $185, and for all races $241. Of married couple households, black elderly have a median cost of $242, Hispanics $284, and elderly renters of all races $352. In this instance, the much lower median costs of black and Hispanic elderly are due to the greater proportion of black and Hispanic elderly renters who have extremely low incomes and are receiving housing subsidies.

For Hispanic elderly, the renter-owner housing cost differentials were quite large in 1985 -- $78 a month for married couple households and $54 a month for single-women households, who together are 70 percent of all Hispanic elderly. The renter-owner gaps were much smaller for black elderly -- $28 a month for married couple households and an insignificant $3 a month for single women, the two household types that accounted for 66 percent of elderly blacks. However, even the Hispanic renter-owner housing cost gaps were considerably less than those for elderly of all races -- $132 a month for married couple households and $62 a month for single women. As already indicated, these differentials are due much more to variations in rents than homeowner costs.

Nonetheless, the relatively lower housing costs of black and Hispanic elderly renters does not necessarily mean that they have a less severe affordability problem than white elderly renters, since their income differential is even greater than their housing cost differential. Analysis of actual housing costs in relation to income-dependent affordability standards is required to reach definitive conclusions about the extent and distribution of the housing affordability problem among elderly households by race/ethnicity, tenure and household type.

FIG. 2.1. ELDERLY HOUSEHOLDS

NUMBER OF HOUSEHOLDS, U.S., 1970-1988

□ OWNERS+RENTERS   + HOMEOWNERS   ◇ RENTERS
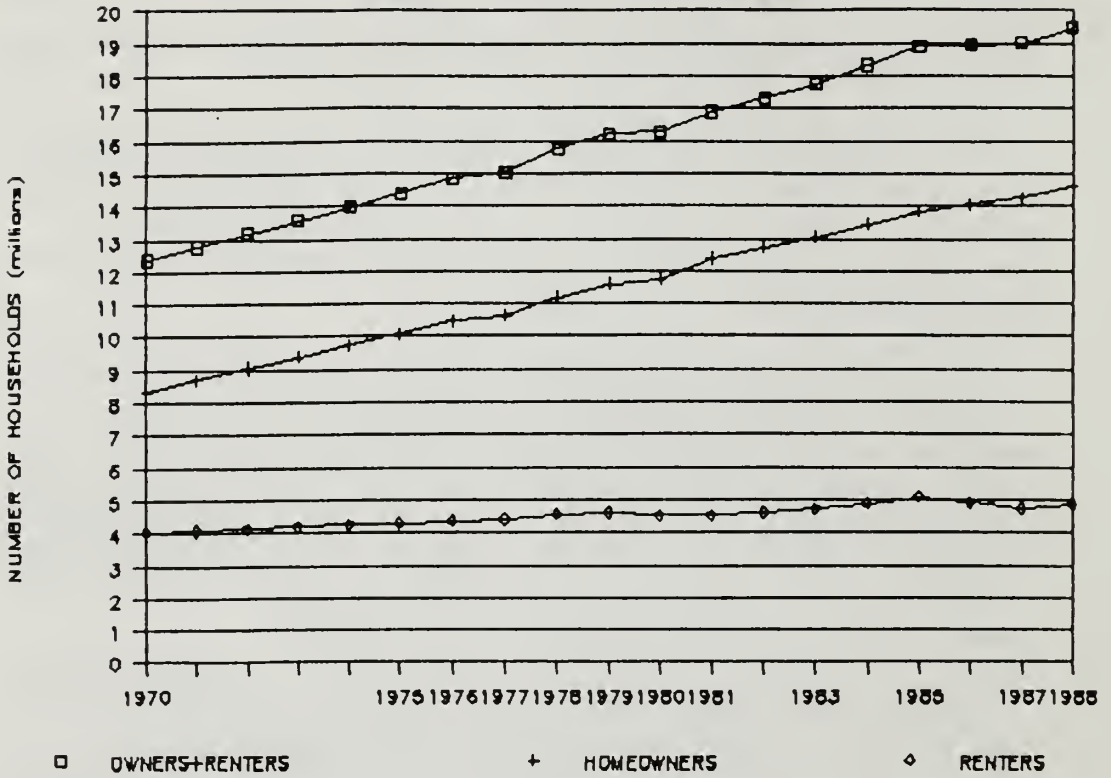
FIG. 2.2. ELDERLY HOUSEHOLDS

ELDERLY % OF ALL AGES, U.S., 1970-1988

□ OWNERS+RENTERS   + HOMEOWNERS   ◇ RENTERS

14
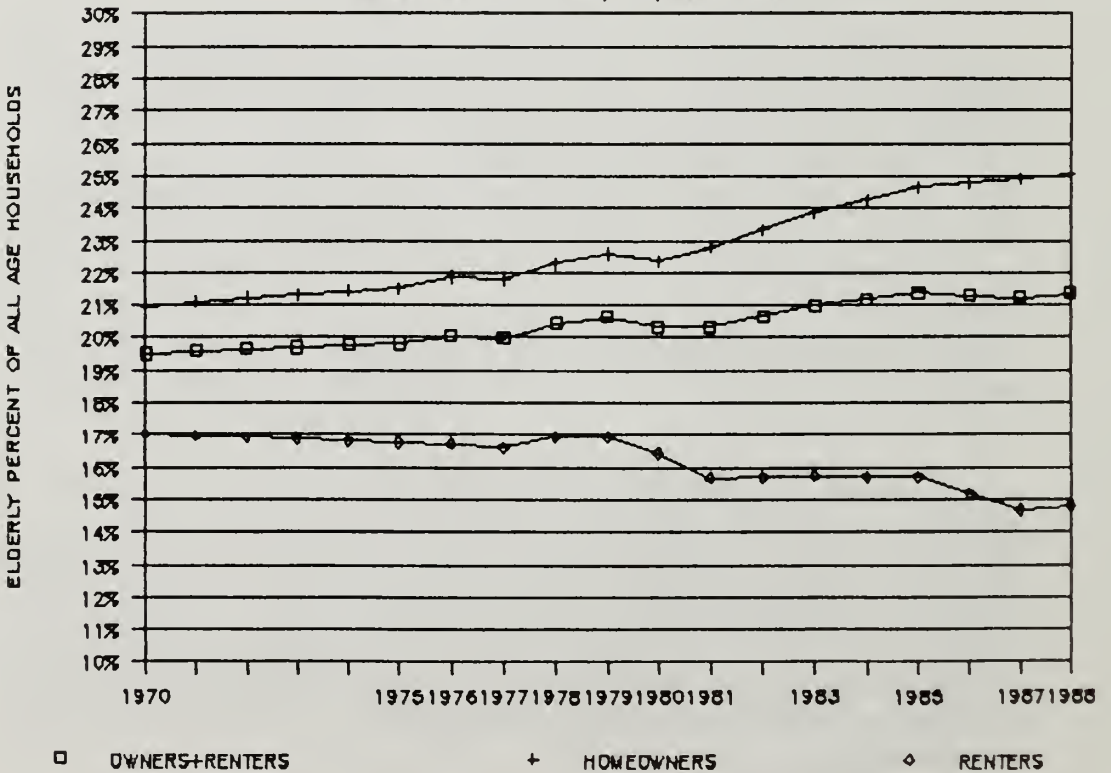
FIG. 2.3. ELDERLY HOMEOWNERS

NUMBER OF HOUSEHOLDS, U.S., 1970-88

□   TOTAL   +   2+PERSON HH   ◊   1-PERSON HH
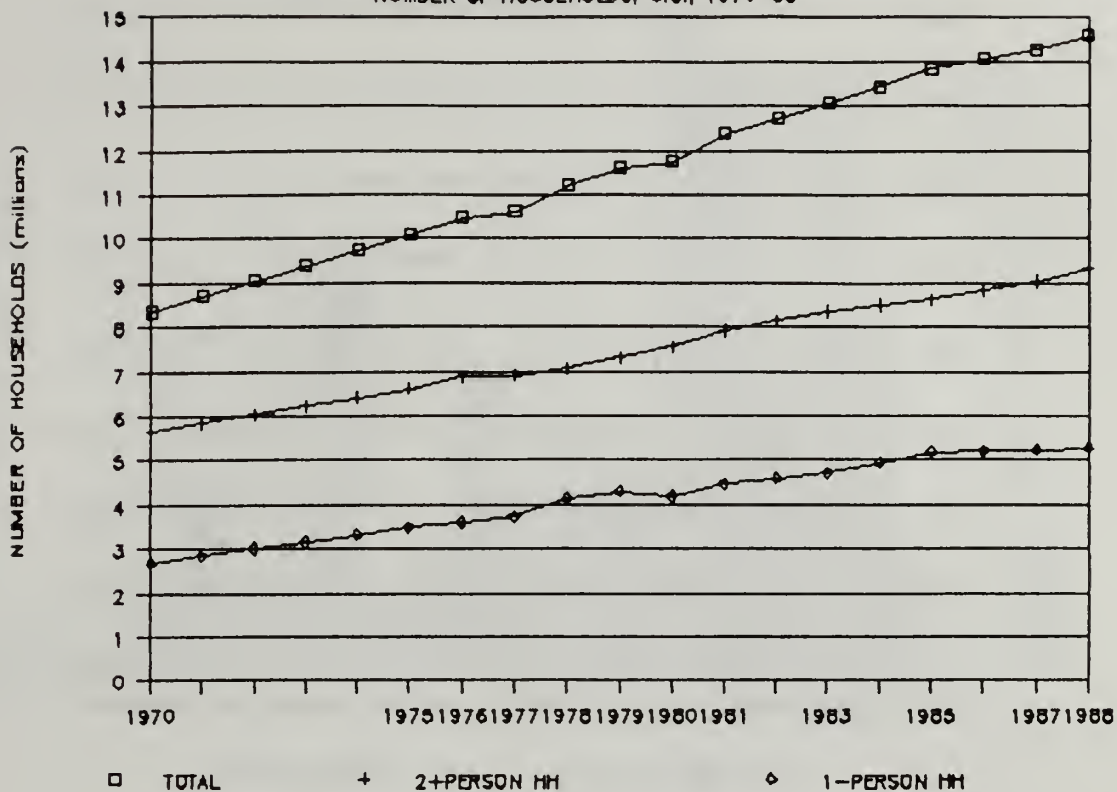
FIG. 2.4. ELDERLY RENTERS

NUMBER OF HOUSEHOLDS, U.S., 1970-1988

□   TOTAL   +   2+PERSON HH   ◊   1-PERSON HH

15
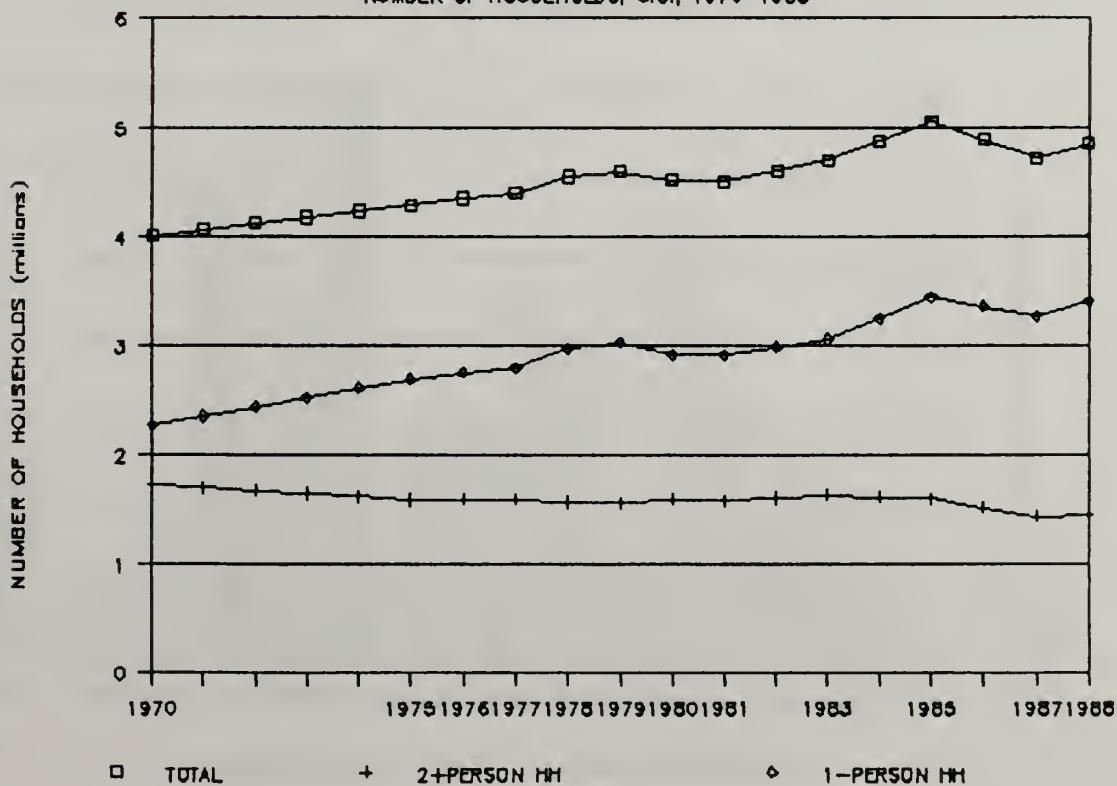
FIG. 2.5. ELDERLY HOUSEHOLDS BY INCOME

1-PERSON HOUSEHOLDS, U.S., 1989

Legend: ▨ HOMEOWNERS ⊠ RENTERS
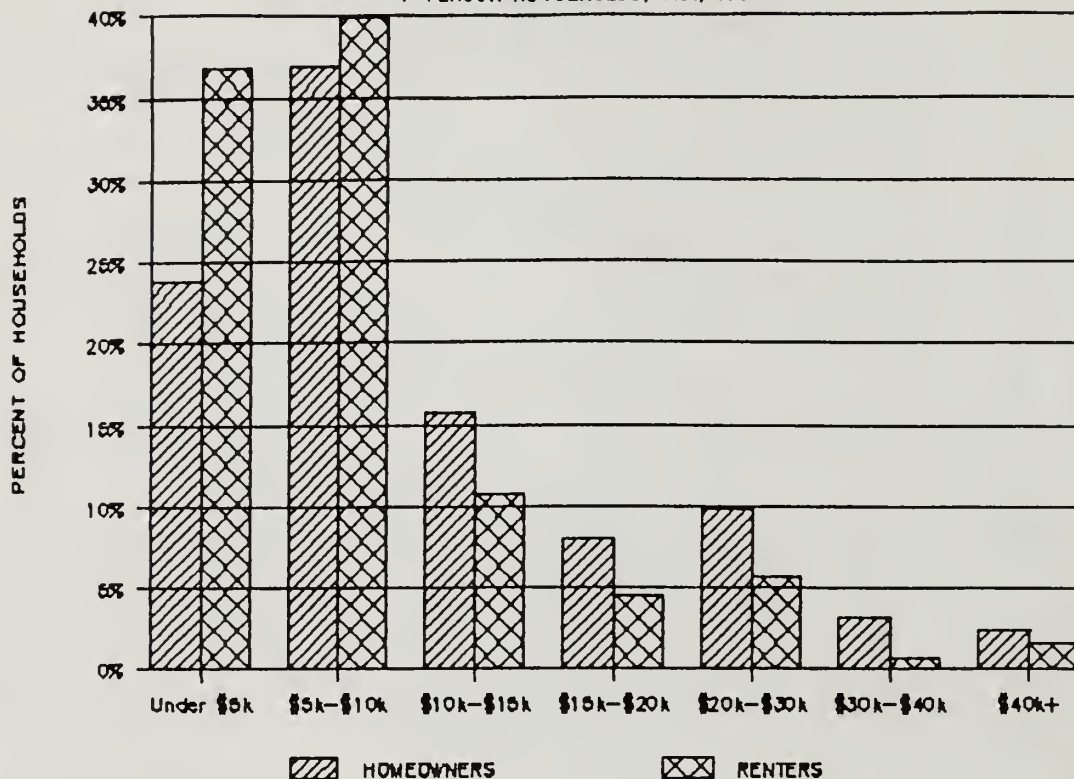
FIG. 2.6. ELDERLY HOUSEHOLDS BY INCOME

2-OR-MORE PERSON HOUSEHOLDS, U.S., 1989

Legend: ▨ HOMEOWNERS ⊠ RENTERS
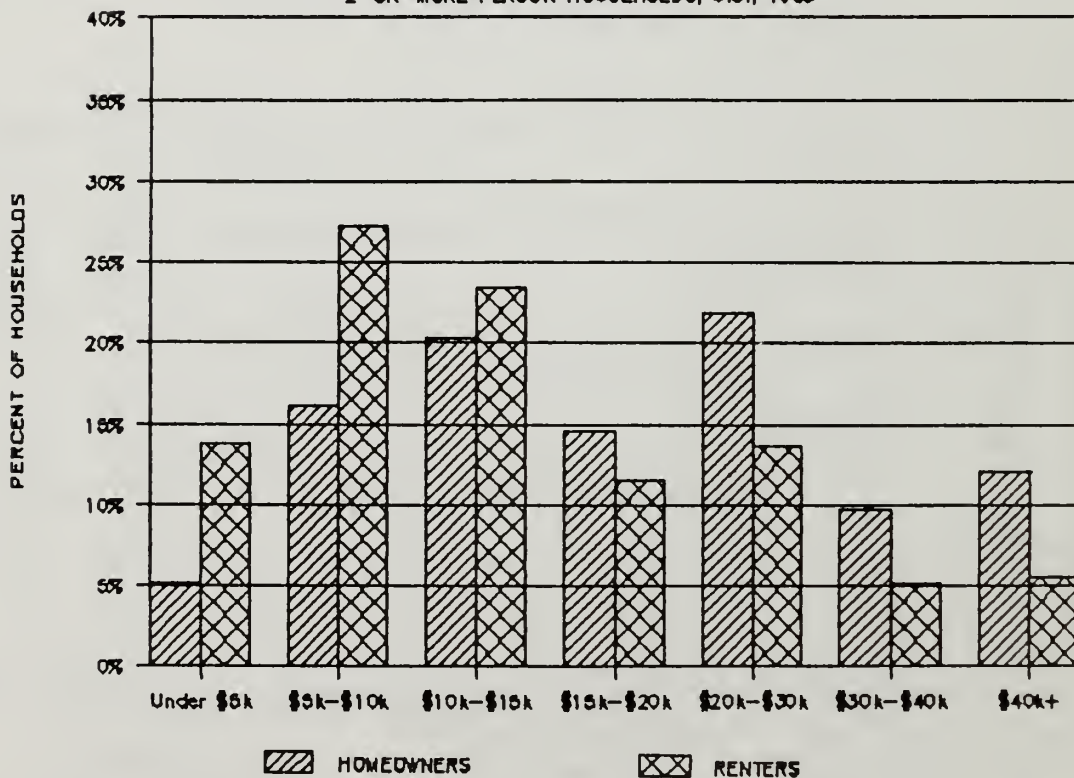
FIG. 2.7. HOMEOWNERS BY INCOME

ELDERLY V. NON-ELDERLY, U.S., 1985
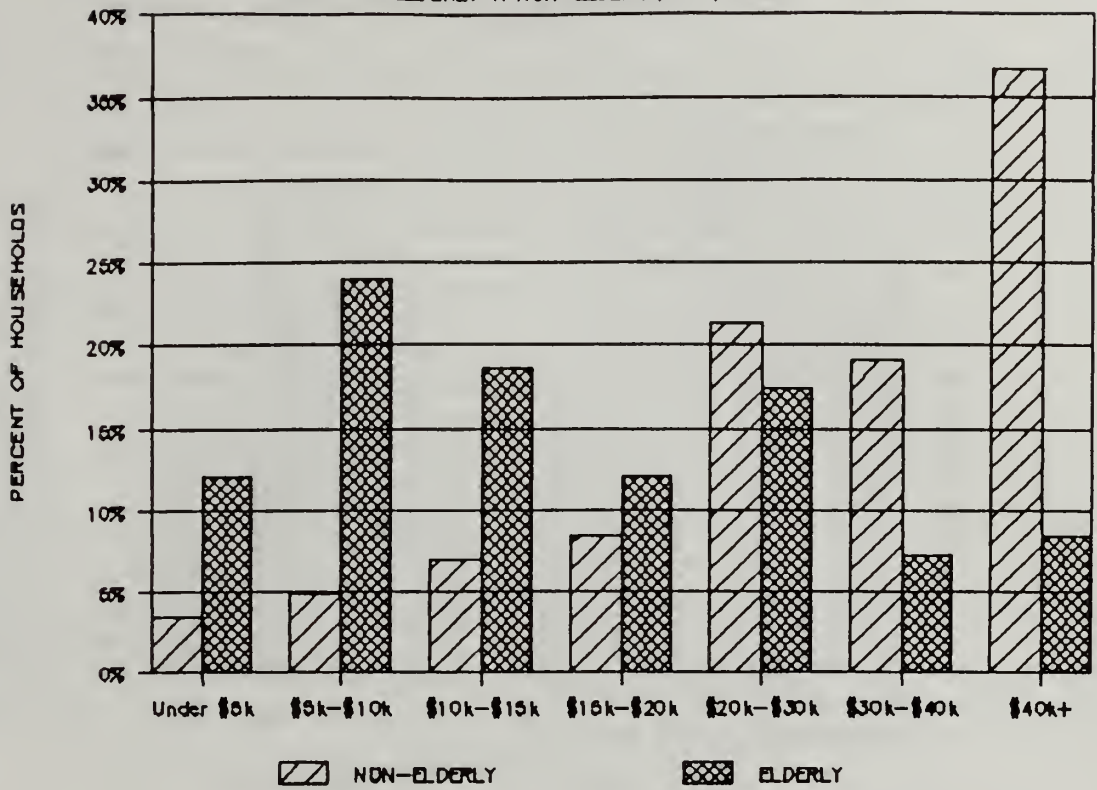
FIG. 2.8. RENTERS BY INCOME

ELDERLY V. NON-ELDERLY, U.S., 1985

17
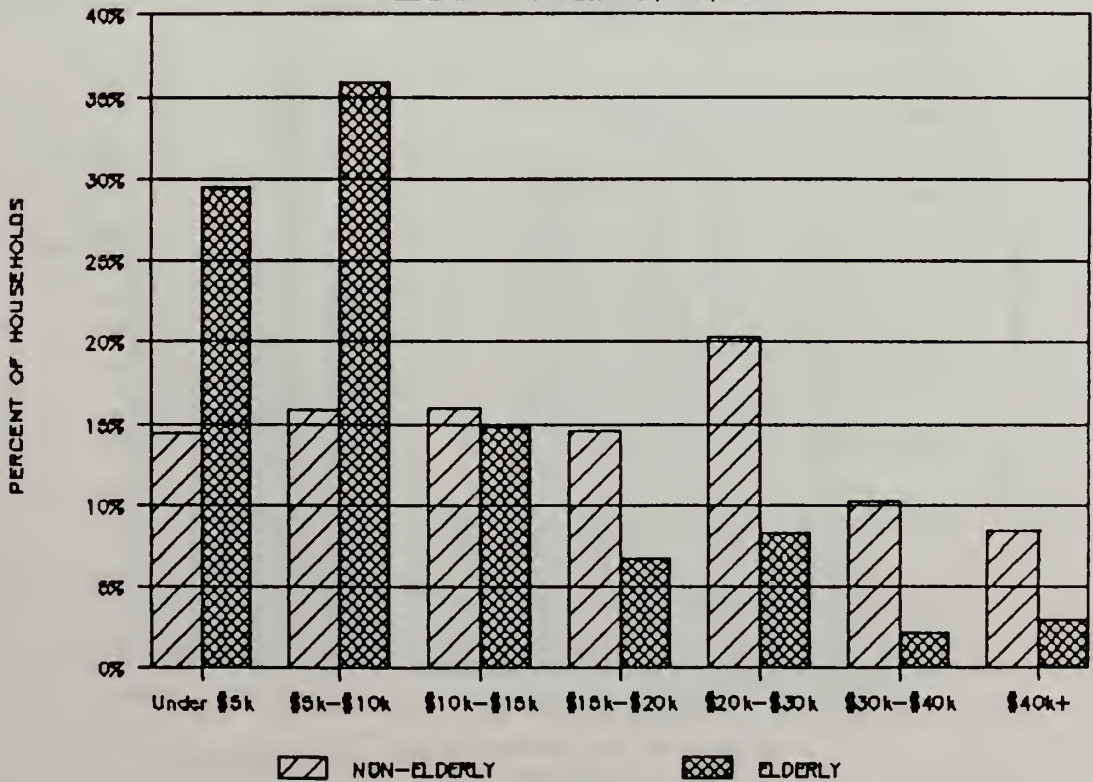
FIG. 2.9. ELDERLY HOUSEHOLDS BY INCOME

MEDIAN INCOME BY HH TYPE, U.S., 1985

HOMEOWNERS   RENTERS
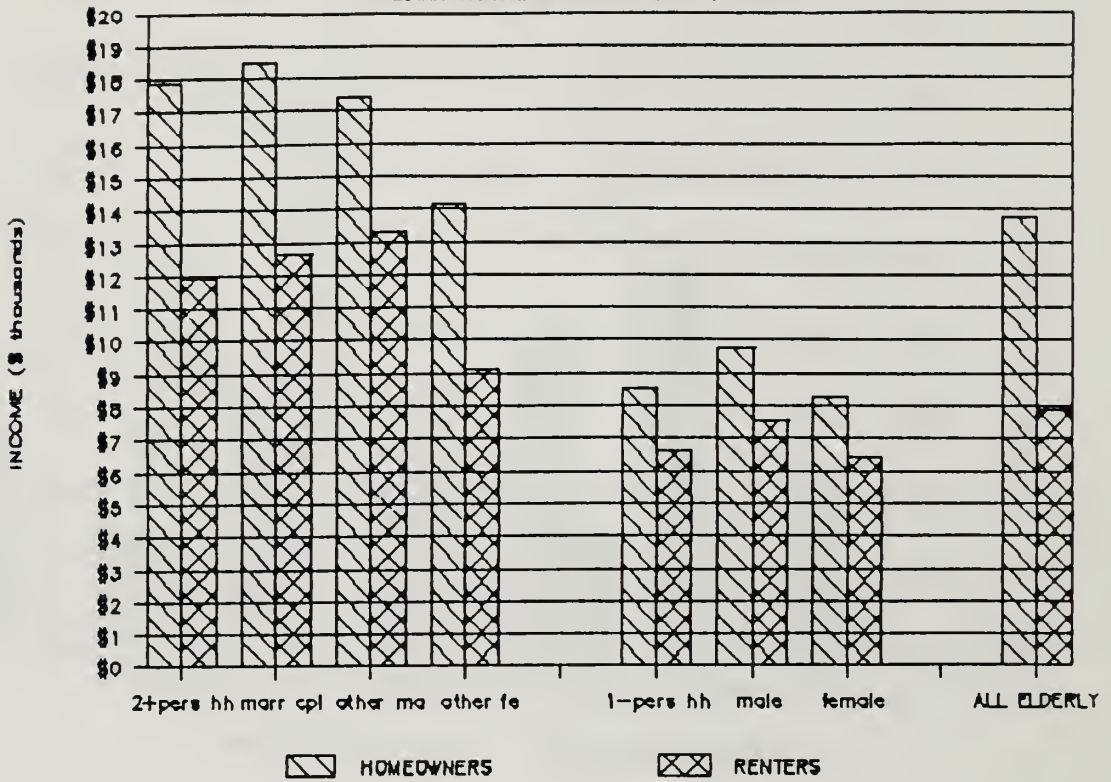
FIG. 2.10. ELDERLY HOUSEHOLDS BY COST

MEDIAN COST BY HH TYPE, U.S., 1985

HOMEOWNERS   RENTERS

18
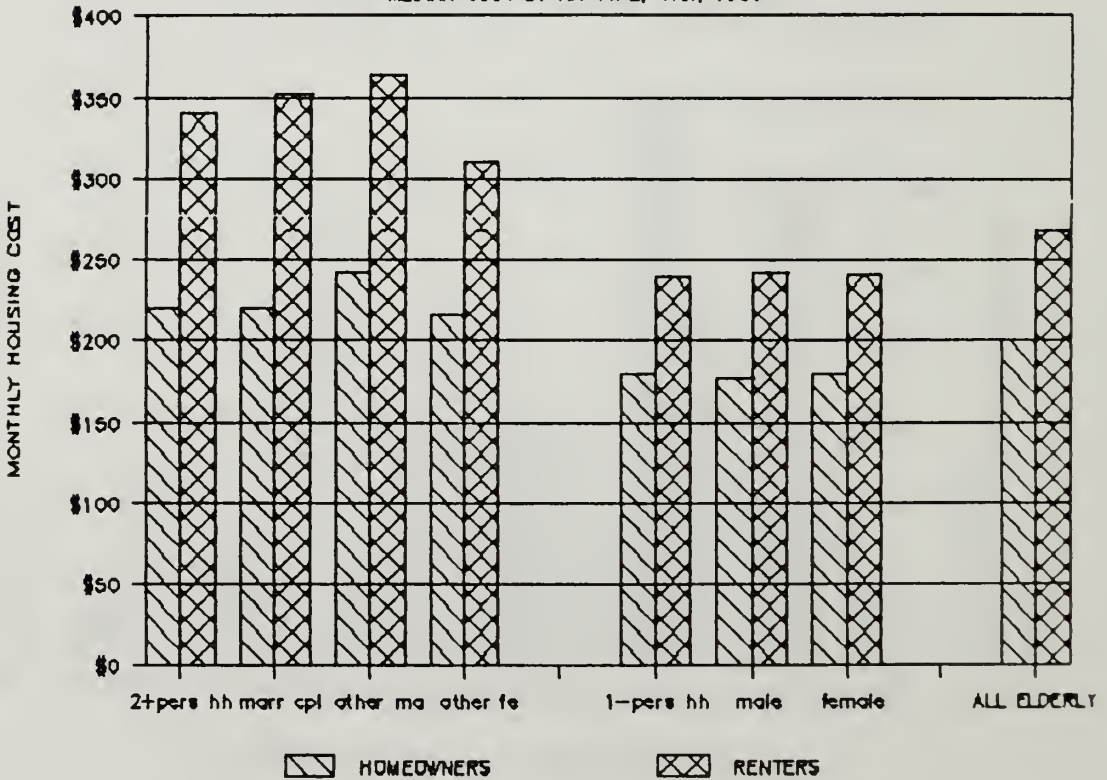
FIG. 2.11. ELDERLY HOUSEHOLDS BY COST

HOUSING COST DISTRIBUTION, U.S., 1985

MONTHLY HOUSING COST ($ hundreds)

⊠ HOMEOWNERS   ⊠ RENTERS
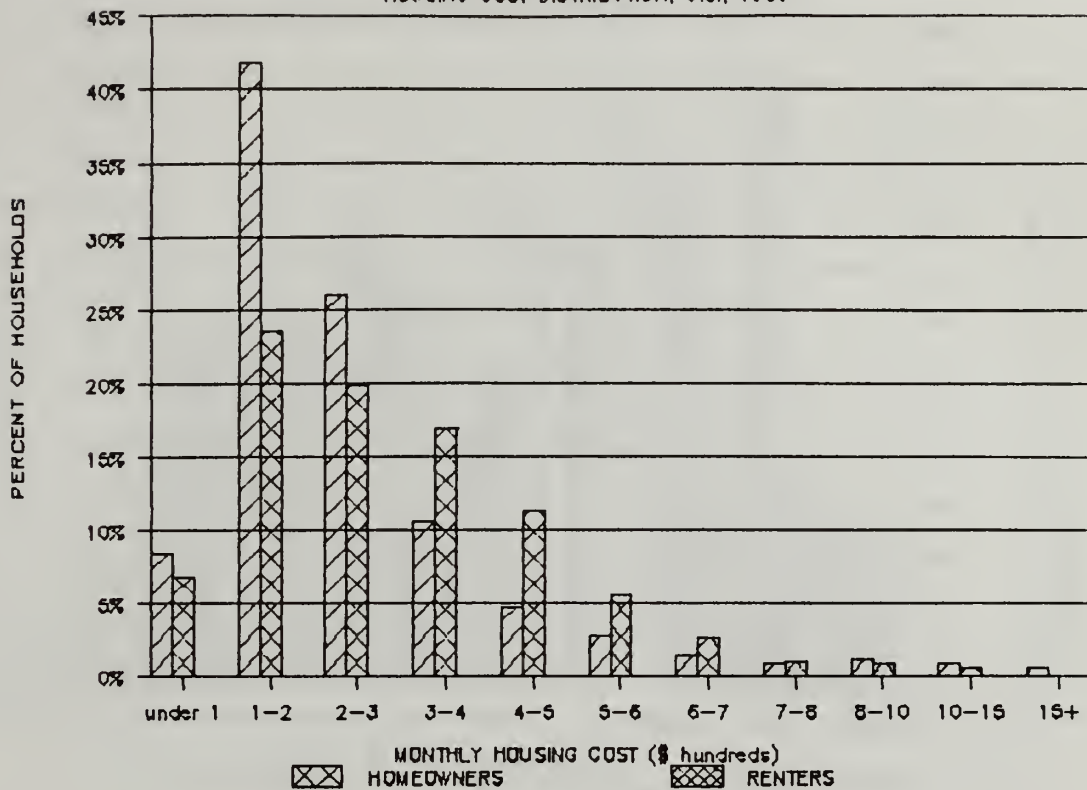
FIG. 2.12. HOMEOWNERS BY HOUSING COST

ELDERLY V. NON-ELDERLY, U.S., 1985

MONTHLY HOUSING COST ($ hundreds)

⊠ NON-ELDERLY   ⊠ ELDERLY
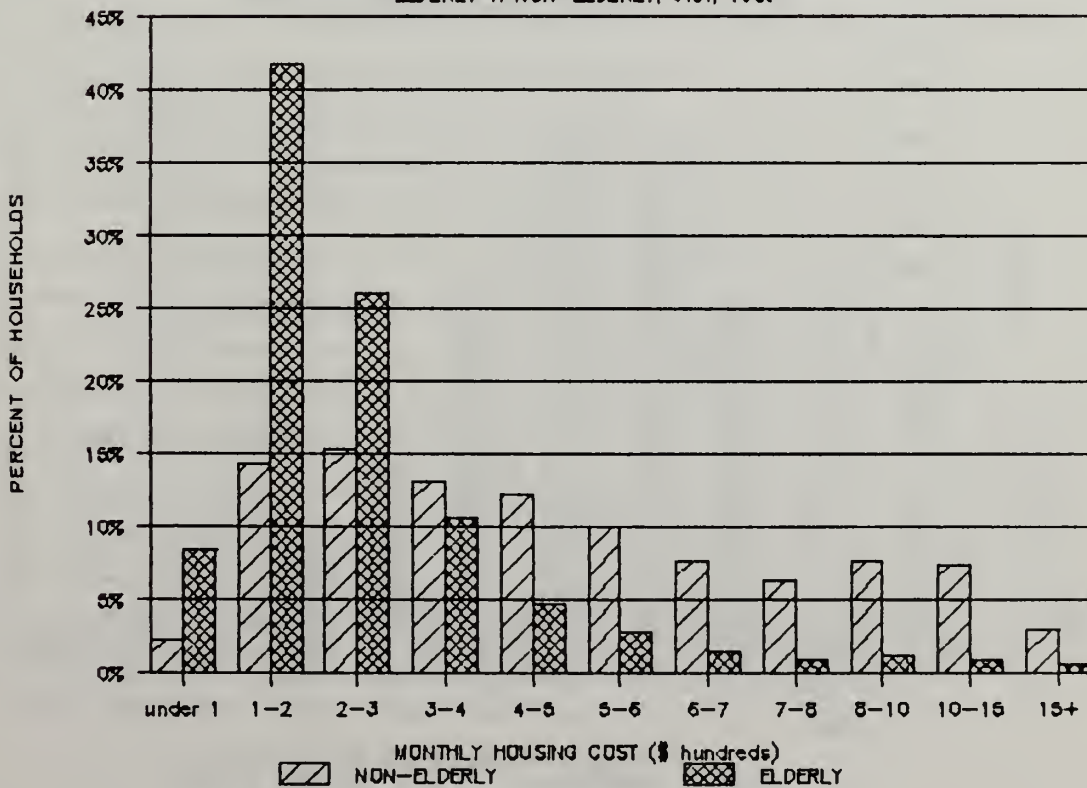
FIG. 2.13. RENTERS BY HOUSING COST

ELDERLY V. NON-ELDERLY, U.S., 1985
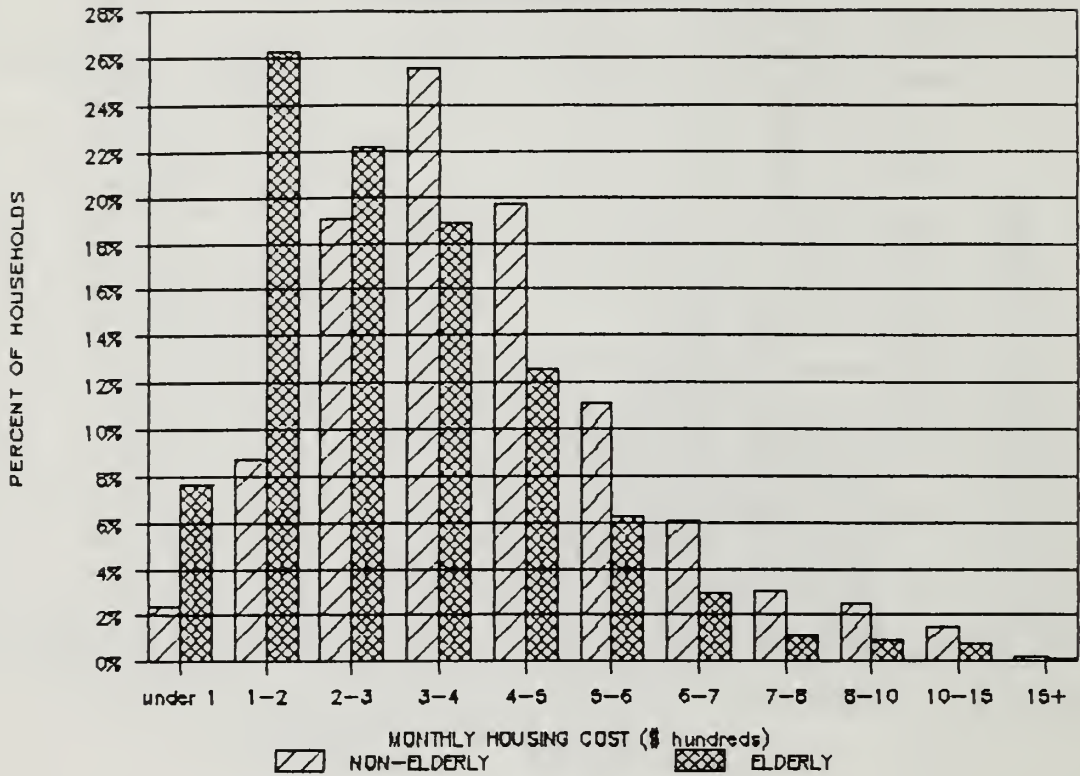
FIG. 2.14. UNSUBSIDIZED RENTERS BY COST

ELDERLY V. NON-ELDERLY, U.S., 1985
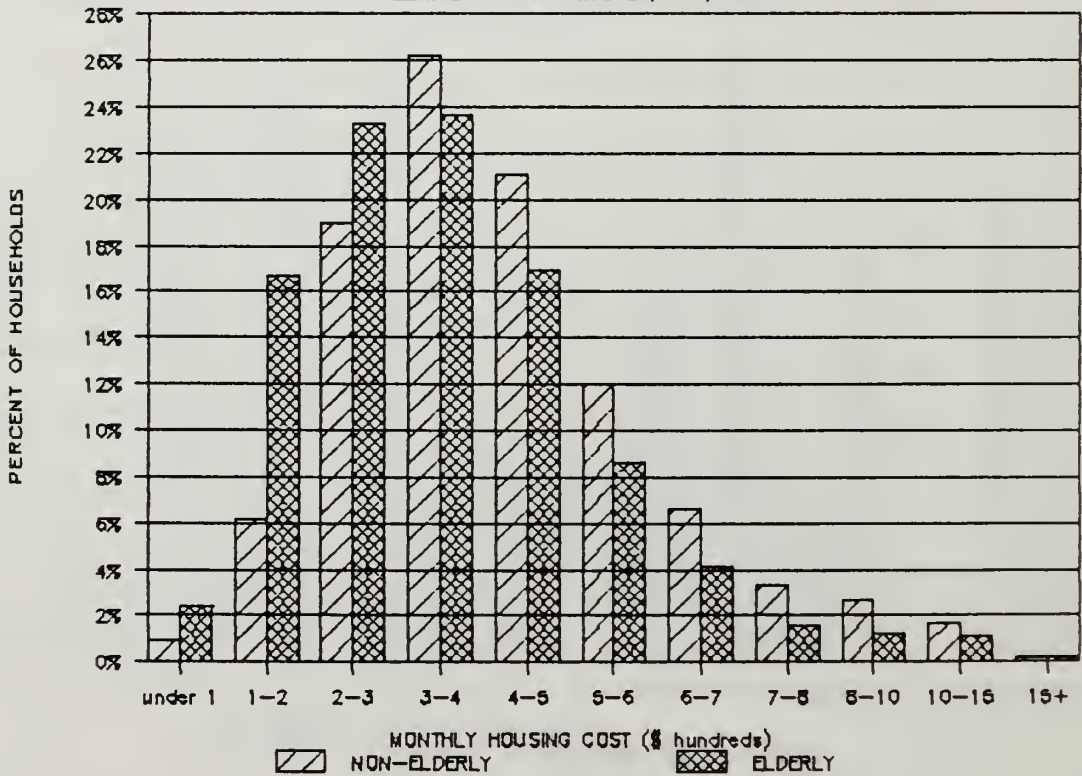
FIG. 2.15. ELDERLY HH BY RACE/ETHNICITY

MEDIAN INCOME BY HH TYPE, U.S, 1985

Legend: ALL RACES, BLACKS, HISPANICS
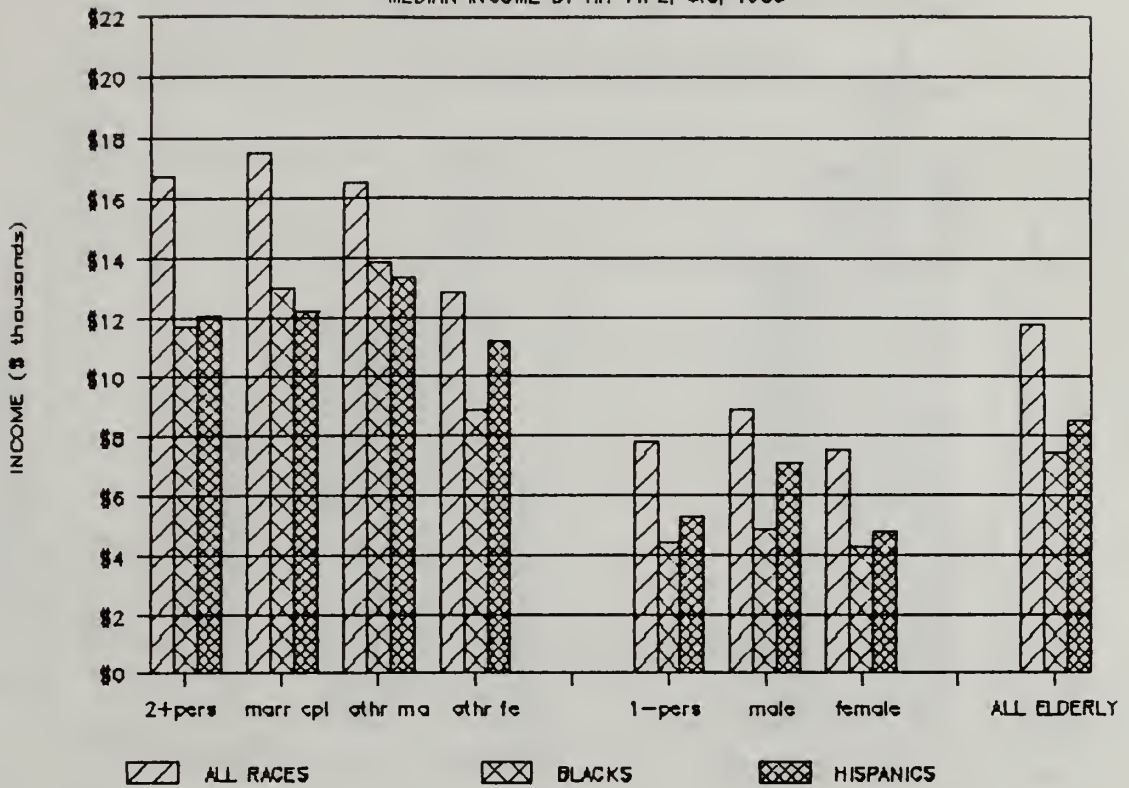
FIG. 2.16. ELDERLY HH BY RACE/ETHNICITY

RELATIVE INCOME DISTRIBUTION, U.S. 1985

Legend: BLACKS, HISPANICS
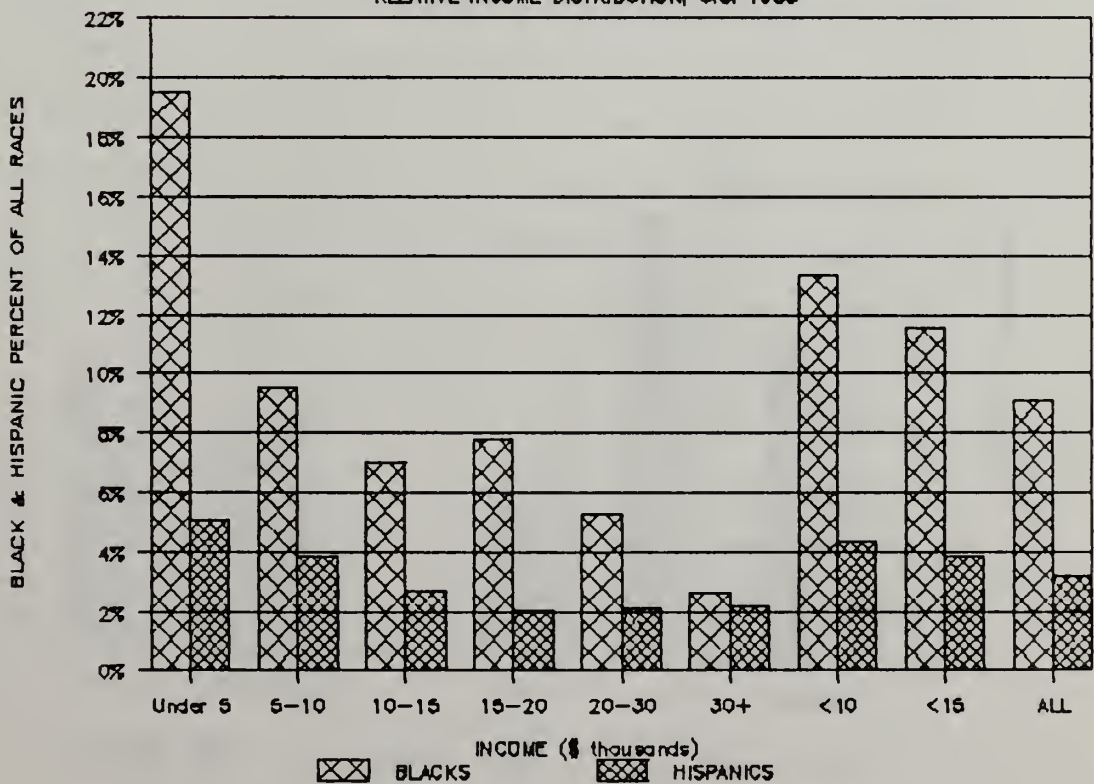
FIG. 2.17. HOMEOWNERSHIP RATE

BY RACE/ETHNICITY, U.S., 1989
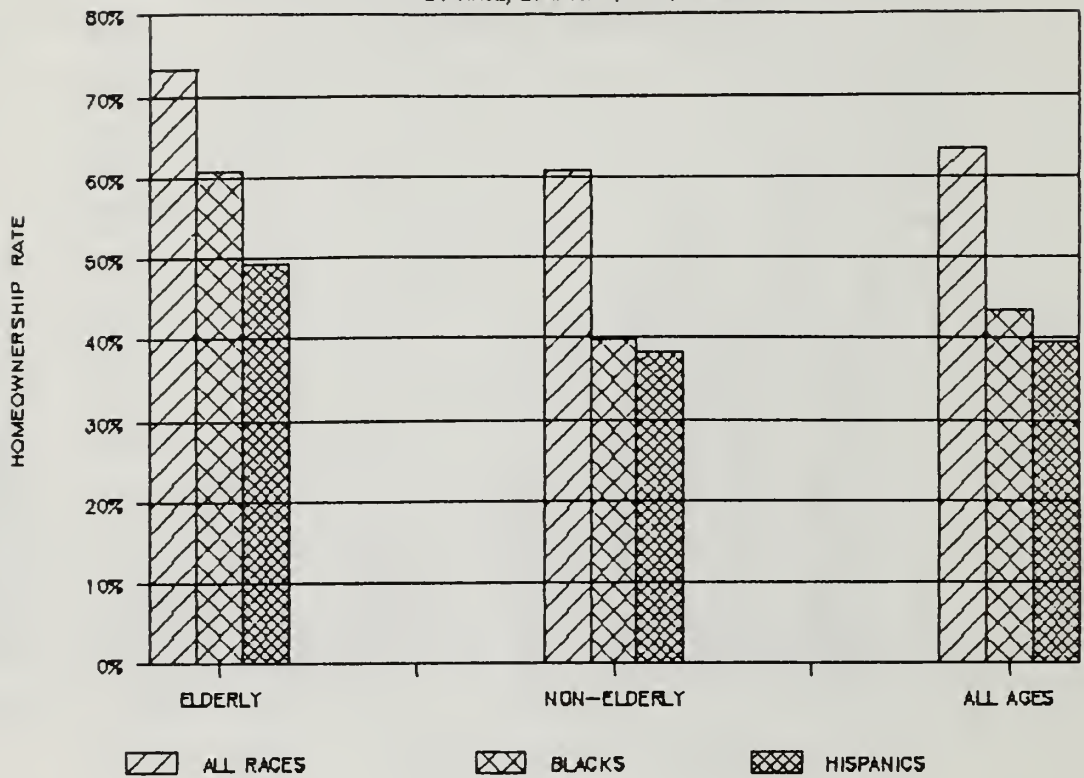
FIG. 2.18. ELDERLY HH BY RACE/ETHNICITY

MEDIAN INCOME BY HH SIZE AND TENURE
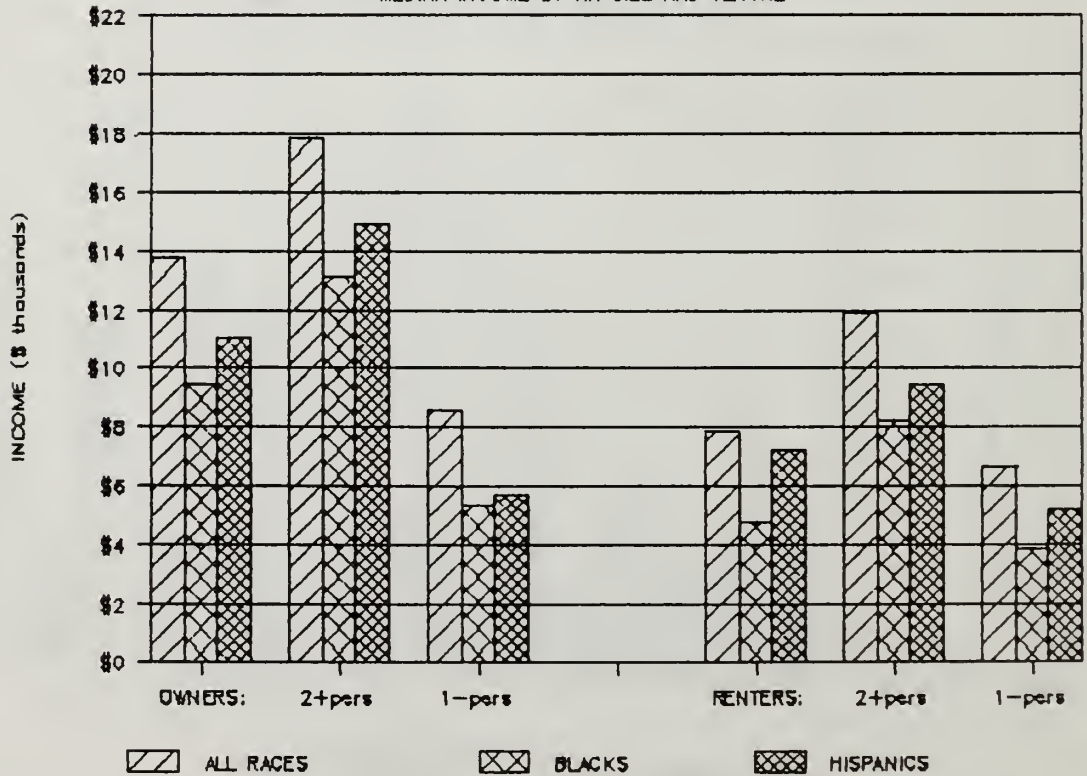
FIG. 2.19. ELDERLY HH BY RACE/ETHNICITY

MEDIAN COST BY HH SIZE AND TENURE

Chart axes: MONTHLY HOUSING COST ($0 to $350) vs. categories OWNERS: 2+pers, 1-pers, RENTERS: 2+pers, 1-pers

Legend: ▧ ALL RACES ▨ BLACKS ▩ HISPANICS
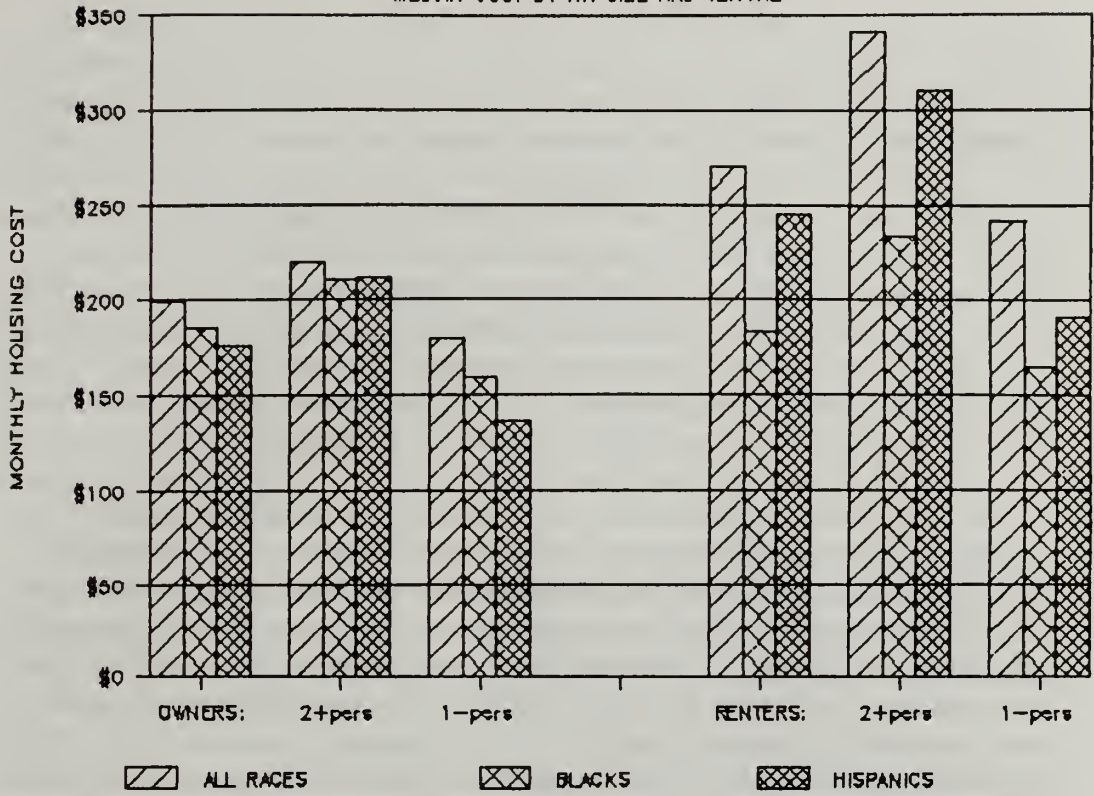
CHAPTER 3

HOW MUCH CAN ELDERLY HOUSEHOLDS AFFORD FOR HOUSING?

The conventional view of the housing affordability problem is based upon a certain notion of how much people can reasonably be expected to pay for housing -- namely, the famous 25-percent-of-income rule of thumb. Even this rule of thumb is subject to various adjustments and interpretations, depending upon one's point of view and and one's political position. For a time, analysts and policymakers thought 20 percent was an appropriate percentage of income, and now 30 percent is becoming the arbitrary rule applied.

The traditional 25-percent-of-income standard for housing affordability has long been recognized as arbitrary and inadequate. Yet what stands out is the rather widespread awareness and acceptance of the need for some affordability standard for shelter, in distinct contrast to other necessities. Indeed, the cost of housing seems to have a fundamental and pivotal role in determining the overall standard of living of most households, a role qualitatively different from the cost of other necessities. A brief examination of this special significance is useful, for it provides guidance in the development of a more rational alternative to the conventional affordability standard.

Shelter,* food and transportation are by far the largest expenditures of most households, but the differences among them as physical and economic goods makes the outlay for housing much harder to adjust, so that in general that outlay determines how much money a family has available to spend on other needs.

Housing is a bulky, immobile, and durable commodity which rarely can be purchased in amounts other than whole dwelling units and usually is used over a considerable period of time. These characteristics make it extremely difficult, at least in the short run, for a household to alter the quantity, quality, or amount spent for the housing it consumes. Sudden changes in income, especially downward changes, are generally reflected immediately in other

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*The term "shelter" is used to encompass all the components of housing except for household furnishings and operations ("household operations" being cleaning and domestic services). Although "shelter" and "housing" are often used interchangably, standard sources, such as the Consumer Price Index and Consumer Expenditure Surveys, include household furnishings and operations under the category of "housing." Thus "shelter cost," as used here, explicitly excludes household furnishings and operations, but explicitly includes utilities and home fuels for heating and cooking.

expenditures, including food, but not in the amount spent for shelter. Increases in housing costs usually must be offset by reductions in other expenditures, rather than reductions or substitutions in housing consumption. When the rent or property taxes go up, a family cannot readily give up its living room or switch to a cheaper brand of bathroom to offset the increase.

Obviously in extreme financial emergencies most people will buy the food they need to survive even if it means not paying the rent. But above this starvation level, food consumption patterns and expenditures can and do vary from day to day and week to week. They vary because, unlike housing, food products are quickly consumed and must be purchased anew, and because each purchase involves a mix of distinct items rather than a single, costly item.

The second way in which the cost of housing affects the overall standard of living of families is through its determination of where they can live. This relationship influences the physical quality of the housing people are able to obtain, the amount of dwelling space they have, and the type of community and neighborhood they live in. The influence over locational choice means that the amount a household can pay for housing affects its access to stores, the quality of schools and other public services, the character of the immediate physical and social environment, and the availability of transportation networks to jobs, to services and to friends and relatives. No other consumption item is nearly as pervasive in its effects. Housing costs and incomes are together the most decisive determinants of the material quality of life.

The Logic of Housing Affordability

Because shelter costs generally represent the first claim on a household's income, when we say that a household is paying more than it can afford for shelter, what we mean (or should mean) is that after paying for their shelter its members have insufficient resources left to meet their other needs at some minimum level of adequacy. That is, it is not merely insufficient income that limits a household's capacity to meet its other needs adequately; it is also the housing cost, through its determination of residual resources and through its locational restrictions. Such a condition can thus be called "shelter poverty" -- a condition resulting from the squeeze between incomes and housing costs.

It is clear that "shelter poverty" may be unrelated to other forms of housing deprivation. A household may not be shelter poor -- and hence it may be able to meet its other needs -- yet its members may live in physically inadequate housing or an unsatisfactory residential environment. Or they may be adequately housed, yet be paying more than they can afford. Or they may be both inadequately housed and paying more than they can afford. What is now clear, though, is that the assessment of housing affordability should be based

upon the interaction among incomes, shelter costs, and the costs of nonshelter necessities. Shelter poverty is thus seen to be a form of nonshelter deprivation which results, in part at least, from excessive shelter costs. On this basis, only if a household would be unable to meet its nonshelter needs with zero shelter cost should we consider its condition absolute poverty rather than shelter poverty.

Could it not be argued that the selection of housing as the focal consumption cost is arbitrary? Would it not be possible to choose food costs as most basic and argue that if a household pays too much for food they will not have enough income left for housing and other necessities? Or couldn't an analysis start with health costs, contending that people are paying too much for health care if their health costs leave them with insufficient resources to pay for housing, food and other necessities? Certainly formal analyses could be carried out with other items as the focal costs, but such an approach simply would not correspond to the experiential reality of most households. It is no accident that there arose historically a standard of affordability for housing but not for other necessities, however inadequate that particular conventional standard may be: housing costs have long been recognized as making the first claim on a household's disposable income, with a housing affordability standard serving as a yardstick for determining whether enough money is left for nonhousing necessities. Certainly examples can be found where families have had to cover food or medical expenses before housing, but such cases reveal that it is only in the most extraordinary circumstances that housing costs are not the initial and most pivotal of a household's consumption expenditures.[1]

Consider then an approach that defines an affordability standard for housing in terms of the necessity to have sufficient disposable income left to meet nonshelter needs at some minimum level of adequacy after paying for shelter. We discover very quickly how illogical it is to try to specify a universal percent of income that would be appropriate for any or all nonshelter items and thus for shelter itself.[2] For example, suppose a household has a disposable income below that needed to achieve some specified minimum standard of living. In order to meet its nonshelter needs at this minimum level, such a household would have to spend the same amount of money as a higher-income household, but this amount of money would of course represent a higher percentage of its income. In order to actually have enough money to meet its nonshelter needs adequately, though, its actual housing cost could not exceed a certain maximum level, which would be both a smaller amount of money and a lower percentage of its income available for shelter than the maximum for a higher-income household. In fact, without some assistance such a household could not simultaneously meet both its shelter and nonshelter needs adequately no matter what percentage it would spend on each.

Conversely, if a household has sufficient resources to live above the minimum standard of living, all of its extra income can in general be

considered to be discretionary. If its members so choose, they can allocate all of these discretionary resources to shelter. Were they to do so, they would still be able to meet their other needs at the minimum level, yet they would be spending a greater percentage of their income for shelter -- and could indeed afford to spend this greater percentage -- than if their income were less.

Accepting the possibility of such quantification, even in principle, the obvious practical problem is how to define a minimum level of adequacy for nonshelter goods and services and how to determine the cost of achieving this minimum level of adequacy.

Recognizing that every household has its own unique conditions of life, it is nonetheless both necessary and reasonable, both for our purposes here and generally for analysis and policy, to generalize to some extent. Clearly, there do exist historically and socially determined notions of what constitutes a minimum adequate or decent standard of living; they represent generalized norms or standards around which a range of individual variations can be recognized and about which there certainly may be some philosophical debate. Furthermore, it is possible, at least to some extent in an economy such as ours, to quantify in monetary terms those aspects of the minimum standard that can be met through the purchase of goods and services. The official Poverty Level is the most familiar but not the only example of such a monetary minimum standard.

Although an income-dependent affordability standard suggested by the above analysis certainly would represent a more rational approach than the traditional nonvariable 25 percent of income, use of a societal standard based on average cost of obtaining adequate goods and services certainly does not require abstraction from all differences among households other than income. Households can be classified on the basis of a number of factors that significantly affect the amount of resources needed to achieve a comparable standard of living. One of the most important factors, which also has the virtue of being routinely and easily determined is household composition -- which includes household size, ages of household members, and marital status of the "householder" (formerly referred to as "head of household").[3]

Furthermore, a shelter cost standard based on the actual cost of various items, whether or not it reflects household differences, will change as prices change. If a household's disposable income does not increase as the cost of the nonshelter goods and services needed to achieve the minimum standard of living rises, its members obviously will have to spend an increased fraction of their income to obtain these items and will be able to afford less for shelter, in dollars and as a percentage of income.

In addition, there are, of course, geographical variations in the costs of food, clothing, health care, transportation, and so forth, so that the total cost of

achieving a certain material standard for nonshelter necessities varies somewhat with the particular metropolitan area, state, or region.

Use of the BLS Lower Budget Nonshelter Costs

As already suggested, there exist a number of conceptual and methodological approaches to the determination of a minimum adequate standard of living. It is not appropriate to examine here all of the diverse approaches and debates involved in attempting to specify standards of adequacy.[4] For a number of reasons, the official Poverty Level is particularly problematical as the starting point for a housing affordability standard, one of which is that it does not permit the separation of shelter from nonshelter necessities.[5]

In view of the problems with the Poverty Level, a more satisfactory basis for establishing the cost of nonshelter necessities at a minimum level of adequacy is necessary. The Bureau of Labor Statistics (BLS) Lower Budgets -- although not without some difficulties of their own, as discussed below -- avoided most of the problems with the Poverty Level and have thus been utilized as the starting point for determining the cost of nonshelter items (other than taxes). Also, by utilizing only a selected portion of the Lower Budget in deriving the shelter poverty affordability scale, many of the major weaknesses with the BLS Budgets have been avoided or overcome.

The BLS Family Budgets had their origins around the turn of the century, when a Congressional investigation of living standards led to the first "quantity-based" budgets -- normative budgets derived by first establishing quantities of goods and services to achieve a certain material standard and then pricing these quantities. Evolving at the federal level and in some states during the World Wars and the Depression, the modern concept emerged after World War II as the "City Worker's Family Budget," specifying a "modest, but adequate" standard of living. In the 1960s, with greatly increased attention to income adequacy and income distribution, the "modest, but adequate" budget was recast as the "Intermediate Budget" in a series that also included a "Lower Budget" and a "Higher Budget." Each year from 1967 through 1981, the Bureau of Labor Statistics published a set of these normative "Lower," "Intermediate," and "Higher" budgets for a prototypical urban family of four and for a prototypical retired couple.[6]

Unlike the Poverty Level, the BLS Budgets consisted of detailed market baskets of goods and services, with the actual quantity and quality of each component reflecting a combination of actual buying patterns as revealed by BLS Consumer Expenditure Surveys and expert opinion about material adequacy and comfort. The published Budgets also included figures for federal and state income taxes and Social Security taxes, computed in such manner that the Budget totals equalled the sum of the prototypical tax amounts at that level

of income plus the normative nontax Budget costs. The tax figures were, of course, non-normative and highly income sensitive, unlike the nontax costs.

The BLS Budgets were originally computed for 39 metropolitan areas (after 1979 reduced to 25), for nonmetropolitan urban areas (places of 2,500 to to 50,000 people) in each if the four major census regions, and for Anchorage, Alaska. Average Budgets were also computed for the urban United States as a whole, for metropolitan areas as a whole, and for nonmetropolitan areas as a whole. In addition, BLS developed two sets of "equivalency factors," one set for consumption and the other for total before-tax budgets, which can be applied to the published family Budgets in order to obtain budgets for families of various compositions.

The Budgets were updated annually, initially through direct pricing of the goods and services in each budget, but after 1969 primarily by utilizing price increases as measured by corresponding components of the Consumer Price Index (CPI). The Reagan Administration decided to eliminate the BLS Family Budget Program beginning in fiscal year 1983, so that the last published budgets were for Autumn, 1981. It has not been difficult, though, to update the budget components in the same way that the BLS itself had been doing, using the appropriate components of the national and metro area Consumer Price Indexes (CPI).

The computation of "other nonshelter" costs (nonshelter costs other than than taxes) for elderly households, as already indicated, begins with the nonshelter components, other than taxes, of the published elderly couple Lower Budget. The 1981 components (U.S. Department of Labor, Bureau of Labor Statistics, 1982) have been updated utilizing corresponding components of the Consumer Price Index for all urban consumers (CPI-U). Table 3.1 contains the published Autumn 1981 figures from the elderly couple Lower Budget with the updating to Autumn 1987. (For purposes of this research the urban U.S. average Budgets have been used.)

To determine Lower Budget aggregate "other nonshelter" costs for single elderly households, it is assumed that to achieve the same material level as the prototypical elderly couple, an single elder would have the same level of expenditures for household furnishings and operations but half the level for food, clothing, medical care and so on. This assumption may be a little generous for household furnishings and operations, but is quite conservative for other items, so that the resulting "other nonshelter" for single elderly is fairly conservative: $3,528 in 1985 and $3,815 in 1987. These figures are only about 70 percent of the Poverty Level for a 1-person elderly household. If higher figures were used, then the maximum amount 1-person elderly could afford for shelter would be less than the scale presented here.

Computation of Personal Taxes

Because the conventional standard of affordability and published data on shelter expenditures generally are based on gross income, use of after-tax income does not complete the shelter poverty derivation and is not sufficient for comparing this affordability standard with the conventional standard and for evaluating the implications of how much households actually pay for shelter. So, for each year it is necessary to compute personal taxes as a function of gross income and household composition. Adding personal taxes to "other nonshelter" (which, recall, varies by household composition but not by income) yields the minimum necessary "total nonshelter" cost by gross income and household composition. Subtracting this minimum total nonshelter cost from the corresponding gross income then yields the maximum amount that households can pay for housing and still meet their nonshelter needs at the BLS Lower Budget level.

The tax computations for elderly households have assumed that income is from OASDHI (Social Security) up to the maximum payable in the given year. Elderly households of higher income are assumed to be receiving maximum possible Social Security benefits, with the additional income from taxable pensions and investments, and no wage and salary income. These income assumptions yield very conservative figures for personal taxes -- no income tax on Social Security benefits until the high income thresholds are crossed, and no FICA tax payments.[7] The derived maximum affordable shelter cost figures are thus truly maximum: most elders with non-Social Security income are not receiving the maximum possible Social Security benefits and hence will have higher taxes and thus actually be able to afford less than the derived shelter poverty maximum for their income.

For each household type, the tax figures for each level of income have been added to the other nonshelter after-tax budget cost to arrive at figures for the total cost of maintaining the BLS Lower Budget standard for all nonshelter items (including personal taxes) at that level of income in that year. The differences between the gross income and the total nonshelter cost is then the maximum amount, on average, which a household could afford for shelter and still maintain the nonshelter Lower Budget standard. Tables 3.2 and 3.3 illustrate the elements that go into the computations for 1987 for a single elderly person and an elderly married-couple household.

The Shelter - Poverty Affordability Standard

The maximum affordable shelter costs derived according to the above procedure constitute the shelter poverty affordability standard. A household of a given size and type paying more than the maximum amount would, on average, find that the squeeze between their income and their shelter cost leaves them

with insufficient resources to meet their nonshelter needs at the minimum level of adequacy defined by the BLS Lower Budget.

Figures 3.1 and 3.2 present the 1987 shelter poverty scale in visual form: in terms of the maximum affordable dollar cost per month and the maximum affordable percentage of gross income. Tables 3.2 and 3.3, as indicated, illustrate the maximum affordable shelter costs for single elderly and married-couple elderly households. Table 3.4 presents the minimum incomes needed by elderly households to afford certain prototypical levels of housing cost.

Several principal features stand out in these results, quite apart from the specific figures. First, for each type of household the maximum affordable shelter cost increases steeply, both as a percent of income and in dollars, as income increases. Second, the maximum affordable shelter cost varies substantially with household size, with 1-person elderly households able to afford rather more in dollars and as a percent of their incomes than 2-person households with the same income.

Third, for each size household there is a level of income below which such households cannot afford to pay <u>anything</u> for shelter and still maintain the BLS Lower Budget standard for nonshelter items and pay their taxes. Households below the zero point of affordability would not have enough income to meet their non-shelter needs at the BLS Lower Budget Level <u>even if their housing were free</u>. Comparing the zero points of affordability with the federal poverty level reveals that elderly 1-person households at the poverty threshold can, in general, meet their nonshelter needs adequately if they have housing that costs no more than about $130 a month. Elderly households of 2 persons with incomes at the respective poverty level can, on average, only meet their nonshelter needs at the BLS level if they have virtually no housing costs. <u>The comparison suggests that, in general, elderly people at the poverty level cannot afford the cost of housing in the private market</u>.

Fourth, for each size household there is a level of income above which such households can afford to pay more than the conventional 25 percent of income for shelter, and a slightly higher income above which they can afford more than the current 30 percent standard. Not surprisingly, the mimimum income required to break the traditional affordability barrier is much greater for larger households than smaller. For example, an elderly couple with income of over $9,300 in 1987 could afford 25 percent of income for housing, while a single person can afford 25 percent of income with an income of about $5,100 or more (assuming insurance for all medical expenses).

Finally, as the cost of nonshelter goods and services has risen over the years, households at any given level of income have been able to afford less for shelter. Of course, incomes have risen as well, so a more useful way of viewing the same effect is to consider how the zero points of affordability and

the minimum income needed to afford, say, 25 percent of income has risen over the years. This provides another way of comparing the shelter poverty scale with the traditional standard as well as examining the effects on affordability of rising nonshelter costs and changing taxes. The rising thresholds of affordability can then be compared with increases in incomes to see whether, on average, household purchasing power has kept up with the rising scale of affordability.

For example, from 1985 to 1987 the affordability thresholds rose about 8 percent, compared with a 5.5 percent increase in the CPI and a 9 percent increase in the median income of all elderly households; thus, affordability for the elderly on average just kept up with inflation over this period, although various subgroups may have fared better or worse than the average.

The derived shelter poverty affordability standard provides rather dramatic and compelling evidence of the inadequacy of the conventional 25 percent of income standard -- and any other universal percentage -- for shelter affordability. The variations in affordability by household size and income are so large that it is impossible to assert that there is an "average" or "normal" percentage that can have general applicability. Of greater practical importance, though, than the refutation of the conventional standard, the shelter poverty standard provides a quantitative standard that can be readily adapted and applied to a whole range of programmatic, policy, and analytical purposes.

Issues in the Use of BLS Lower Budget Nonshelter Costs

The composition of goods and services in the BLS Budgets was based on consumption patterns in the early 1960s and was not revised over time with changes in actual consumer buying patterns. Instead, the Budgets were updated simply by applying price changes as measured by corresponding components of the Consumer Price Index. During the late 1970s, BLS commissioned an outside review of the Family Budget Program, which strongly supported the program but proposed major conceptual and methodological revisions (Expert Committee on Family Budget Revisions, 1980; Watts, 1980). As it turned out, the need for major revisions made the program vulnerable to Reagan Administration budget cuts, and so the termination of the Family Budget Program was announced with publication of the 1981 revision (U.S. Department of Labor, 1982).

At the time the shelter-poverty concept was devised and first operationalized in the early 1970s, the nonshelter, nontax components of the BLS Lower Budget provided an appropriate basis for determining the cost of a minimum standard for nonshelter necessities. However, despite the conceptual soundness of the shelter-poverty approach to defining housing affordability, continued use of the updated nonshelter components of the BLS Lower Budget

to operationalize the concept may be problematical and thus has required further examination.

The first issue explored was the evolution of the BLS's position on whether the Lower Budgets actually represented a minimum standard of adequacy. Second, the Expert Committee's discussion of the problems with the Family Budgets and their recommendation (with a strong dissent by one Committee member) to replace quantity-based budget standards with relative standards was considered. Then, in light of the Expert Committee's recommendations and the termination of the Budget program, the most recent Consumer Expenditure Survey (CES) data were compared with the updated elderly-couple Lower Budget figures utilized in the shelter poverty standard (Table 3.5). The major conclusion is that utilizing the aggregate updated figures for nonshelter items avoids most of the weaknesses in the Lower Budget figures and remains a rather conservative way to obtain a minimum standard for nonshelter necessities; indeed, if anything, the derived 1-person nonshelter standard is arguably too conservative.

Conclusion

It is obvious that different shelter affordability standards will lead to somewhat different conclusions about the relationship between incomes and housing costs, both in individual situations and in the aggregate. There is, of course, a certain amount of arbitrariness in every standard, and each involves certain normative assumptions or assertions. Yet it should be clear by now that some standards are more arbitrary than others: We can and should reject any approach that attempts to set up a fixed shelter-to-income standard, be it 25 percent, 30 percent, or any other single ratio or limited range of ratios. It should be possible to reach agreement that a far more useful and far less arbitrary approach is one that takes into account the cost of nonshelter necessities and that therefore results in an affordability standard expressed essentially in terms of monetary amounts rather than shelter-to-income affordability ratios. Then the debate can be focused, appropriately, on the level of nonshelter goods and services to be used in developing the shelter-affordability standard. On this basis the terms of the debate should be clear, and discussion of shelter affordability could and should occur in the political arena as part of the larger debate about the distribution of income in this society.

FIG 3.1 MAXIMUM AFFORDABLE SHELTER COST
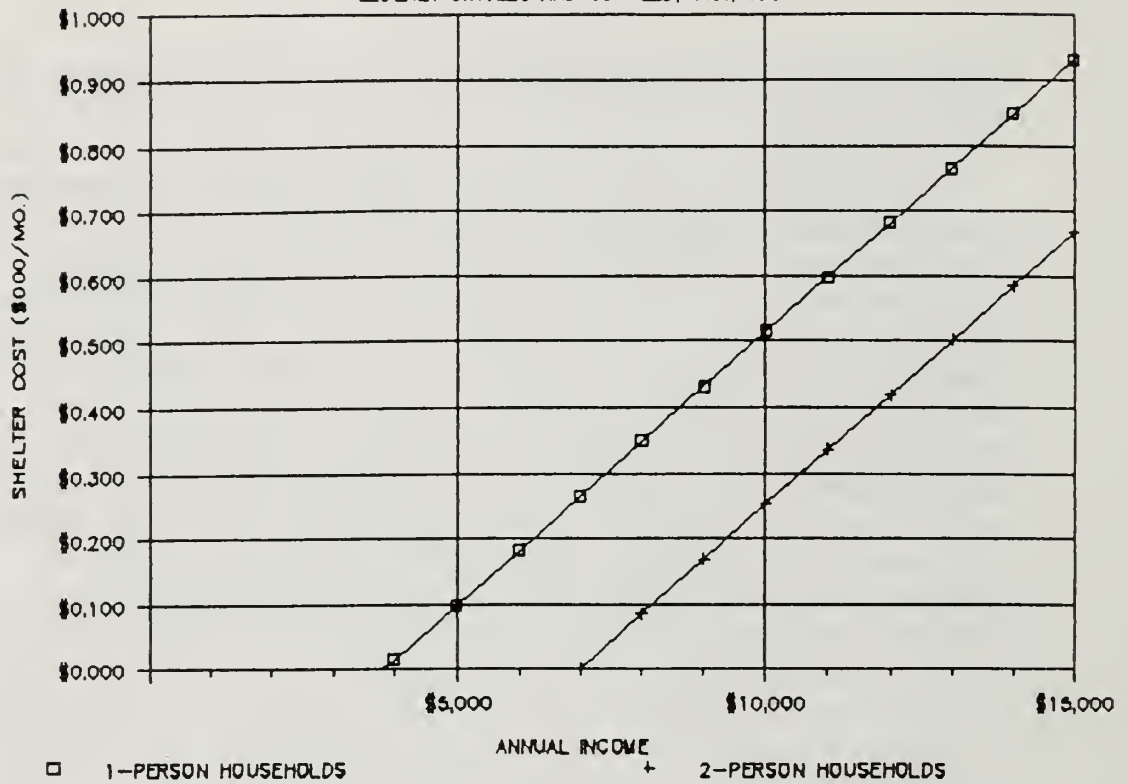
ELDERLY SINGLES AND COUPLES, U.S., 1987

☐ 1-PERSON HOUSEHOLDS   +   2-PERSON HOUSEHOLDS

FIG 3.2 MAXIMUM AFFORDABLE SHELTER COST

ELDERLY SINGLES AND COUPLES, U.S., 1987

☐ 1-PERSON HOUSEHOLDS   +   2-PERSON HOUSEHOLDS
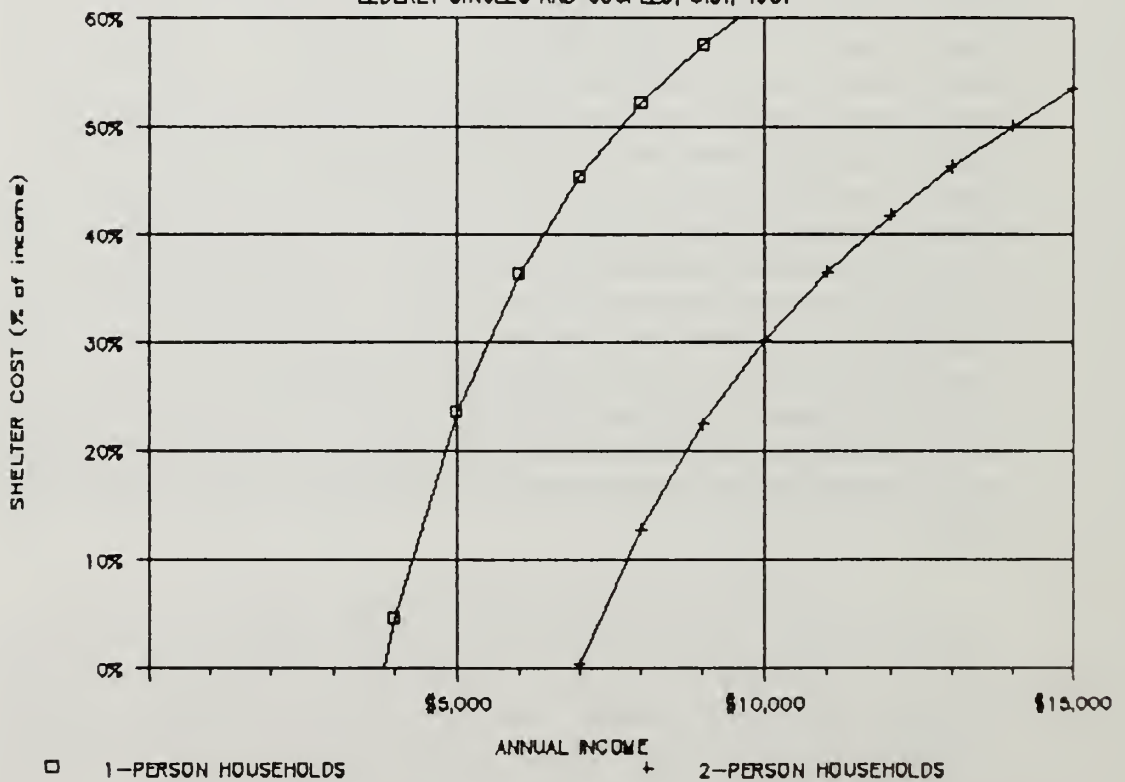
Table 3.1
BLS LOWER BUDGET ESTIMATES
U.S. 1987

Elderly Couple BLS Lower Budget extrapolated from 1981 to 1987

	Budget Cost Autumn 1981	CPI 9/81	CPI 9/87	% change	Budget Cost Autumn 1987
Food Total = Food and Beverages	$2,183	270.7	326.4	20.58%	$2,632
H.H. Furnishings and Operations	$578	224.5	255.8	13.94%	$659
Transportation	$553	285.2	320.4	12.34%	$621
Clothing = Apparel and Upkeep	$244	181.4	222.2	22.49%	$299
Medical	$1,085	301.7	467.8	55.05%	$1,682
Other Family Consumption = Entertainment	$275	224	285.2	27.32%	$350
Personal Care + Other Items = Other Goods and Services	$473	243	373.9	53.87%	$728
Total Other Non-Shelter	$5,391				$6,971
Rent		211.9	294.5	38.98%	
Other Rental Costs		308.1	458	48.65%	
Fuel + Utilities		331.1	389.8	17.73%	
Shelter	$1,621			36.18%	$2,207
Total Budget Cost (excl. taxes)	$7,012				$9,179

Weights for computing Shelter CPI Increase:

Rent	0.596
Other Rental Costs	0.187
Fuel + Utilities	0.217

TABLE 3.2
MAXIMUM AFFORDABLE SHELTER COST
U.S. 1987
SINGLE ELDERLY

Based on BLS Lower Budget Non-Shelter Costs

Total Income	Social Security Income	Non-SS Income	Federal Income Tax	State Income Tax	Other Non-Shelter	Total Non-Shelter	Maximum Affordable Shelter Cost		
							$/Year	$/Month	% Income
$3,000	$3,000	$0	$0	$0	$3,815	$3,815	($815)	($68)	-27.17%
$4,000	$4,000	$0	$0	$0	$3,815	$3,815	$185	$15	4.63%
$5,000	$5,000	$0	$0	$0	$3,815	$3,815	$1,185	$99	23.70%
$6,000	$6,000	$0	$0	$0	$3,815	$3,815	$2,185	$182	36.42%
$7,000	$7,000	$0	$0	$0	$3,815	$3,815	$3,185	$265	45.50%
$8,000	$8,000	$0	$0	$0	$3,815	$3,815	$4,185	$349	52.31%
$9,000	$9,000	$0	$0	$0	$3,815	$3,815	$5,185	$432	57.61%
$10,000	$10,000	$0	$0	$0	$3,815	$3,815	$6,185	$515	61.85%

TABLE 3.3
MAXIMUM AFFORDABLE SHELTER COST
U.S. 1987
MARRIED ELDERLY

Based on BLS Lower Budget Non-Shelter Costs

Total Income	Social Security Income	Non-SS Income	Federal Income Tax	State Income Tax	Other Non-Shelter	Total Non-Shelter	Maximum Affordable Shelter Cost		
							$/Year	$/Month	% Income
$6,000	$6,000	$0	$0	$0	$6,971	$6,971	($971)	($81)	-16.18%
$7,000	$7,000	$0	$0	$0	$6,971	$6,971	$29	$2	0.41%
$8,000	$8,000	$0	$0	$0	$6,971	$6,971	$1,029	$86	12.86%
$9,000	$9,000	$0	$0	$0	$6,971	$6,971	$2,029	$169	22.54%
$10,000	$10,000	$0	$0	$0	$6,971	$6,971	$3,029	$252	30.29%
$11,000	$11,000	$0	$0	$0	$6,971	$6,971	$4,029	$336	36.63%
$12,000	$12,000	$0	$0	$0	$6,971	$6,971	$5,029	$419	41.91%
$13,000	$13,000	$0	$0	$0	$6,971	$6,971	$6,029	$502	46.38%
$14,000	$14,000	$0	$0	$0	$6,971	$6,971	$7,029	$586	50.21%
$15,000	$15,000	$0	$0	$0	$6,971	$6,971	$8,029	$669	53.53%
$16,000	$16,000	$0	$0	$0	$6,971	$6,971	$9,029	$752	56.43%
$17,000	$16,963	$37	$0	$0	$6,971	$6,971	$10,029	$836	58.99%
$18,000	$16,963	$1,037	$0	$0	$6,971	$6,971	$11,029	$919	61.27%

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TABLE 3 4
SHELTER POVERTY AFFORDABILITY SCALE
Minimum Income to Afford Specified Housing Payments
United States
1985 and 1987
Elderly Households

HOUSING COST	1985 HOUSEHOLD SIZE		1987 HOUSEHOLD SIZE	
	1-PERSON	2-PERSONS	1-PERSON	2-PERSONS
0	$3,528	$6,419	$3,815	$6,971
Percent of Income:				
10%	$3,939	$7,148	$4,282	$7,770
25%	$4,748	$8,587	$5,102	$9,317
30%	$5,048	$9,185	$5,495	$9,963
35%	$5,473	$9,886	$5,889	$10,743
50%	$7,063	$12,849	$7,661	$13,946
Dollars per Month:				
$100	$4,728	$7,619	$5,015	$8,171
$200	$5,928	$8,819	$6,215	$9,371
$300	$7,128	$10,019	$7,415	$10,571
$400	$8,328	$11,219	$8,615	$11,771
$500	$9,528	$12,419	$9,815	$12,971
$600	$10,728	$13,619	$11,015	$14,171
$700	$11,928	$14,819	$12,215	$15,371
$800	$13,128	$16,019	$13,415	$16,571
$1,000	$15,600	$18,419	$15,815	$18,971
Poverty Level	$5,156	$6,503	$5,447	$6,872

TABLE 3.5
COMPARISON OF THE BLS LOWER BUDGET WITH
THE CONSUMER EXPENDITURE SURVEY
FOR INCOME CLASSES BRACKETING THE POVERTY LEVEL,
ELDERLY HOUSEHOLDS 65-74

| ITEM | CONSUMER EXPENDITURE SURVEY 1985-86 | | | BLS LOWER BUDGET* UPDATED TO AUTUMN 1985 |
	LESS THAN $5,000	$5,000 TO $9,999	$10,000 TO $14,999	
Food	$1,675	$1,954	$2,630	$2,436
Household Furnishings and Operations	$403	$483	$774	$636
Clothing	$296	$475	$515	$282
Transportation	$1,395	$1,568	$2,713	$620
Medical	$976	$1,179	$1,548	$1,468
Other Expenditures	$1,107	$2,012	$2,209	$977
TOTAL EXPENDITURES EXCLUDING SHELTER	$5,852	$7,671	$10,389	$6,419
SHELTER INCLUDING UTILITIES	$2,887	$3,271	$3,681	$2,034
TOTAL EXPENDITURES	$8,739	$10,942	$14,070	$8,453
CES MEAN DISPOSABLE INCOME	$3,069	$7,149	$11,886	
POVERTY LEVEL: couple				$6,503
single				$5,156

*ELDERLY COUPLE BUDGET

SHELTER-POVERTY
AND CONVENTIONAL HOUSING-AFFORDABILITY BURDENS
AMONG THE ELDERLY

In 1985, 5.9 million elderly households -- or 31 percent of all elderly households -- were shelter poor. As extensive as the problem appears on the basis of the shelter-poverty standard of affordability, it is actually less severe than is suggested by the conventional concept of affordability; 8.4 million elderly households -- 45 percent -- were paying 25 percent or more of their incomes for shelter (Figs. 4.1 and 4.2; Tables 4.1 and 4.2). Although the different approaches, to a considerable extent, identify the same group of households with excessive affordability burdens, as we shall see there are significant differences in the distributions by income and household type. That is, shelter-poor elderly are not a subset of households paying 25 percent or more of income for shelter: A substantial number of elderly, especially those of very low income, are shelter poor even if they are paying less than 25 percent of their incomes for shelter.

Single elderly women have the most severe housing-affordability problem using both the shelter-poverty and conventional standards. While 36 percent of all elderly households are women living alone, 48 percent of all shelter-poor elderly (2.8 million households) and 48 percent of all elderly paying 25 percent of income or more (4 million households) are single women. Married-couple elderly, in comparison, show the opposite disparity: They are 43 percent of all elderly, but 30 percent of the shelter-poor elderly and 31 percent of elderly paying 25 percent of income or more.

Nearly 41 percent of single elderly women are shelter poor compared with 22 percent of married-couple elderly households. The second greatest incidence of elderly shelter poverty is among women householders living with nonspouse others (37 percent), followed by single men (31 percent). The conventional standard also shows single women to be most likely to have excessive costs; but the rate is much higher (almost 59 percent) than that shown through the shelter-poverty approach. Married couples -- 32 percent of the total -- are again least likely to have excessive burdens. Second and third place are reversed, though, with 49 percent of single men and 45 percent of female-headed, 2-or-more person elderly households paying 25 percent or more for shelter (Fig. 4.2). For each household type, then, the shelter-poverty standard shows the burden to be rather less severe than does the conventional standard, but the different approaches are qualitatively fairly consistent with one another in identifying which types of elderly are most and least likely to be paying more

than they can afford for shelter.

It is when we examine the affordability problem by income that we uncover the essential difference between the shelter- poverty and conventional standards of affordability. There are 3 million elderly households with incomes below $5,000 who are shelter poor, comprising 51 percent of all shelter-poor elderly; fully 94 percent of all elderly with such very low incomes are shelter poor. Another 2.5 million elderly have incomes of $5,000 to $9,999; 49 percent of elderly in this income range are shelter poor. Very few elderly with incomes of $10,000 or more are shelter poor (fewer than 360,000, an incidence of only 3 percent).

In comparison, the 2.9 million elderly with incomes below $5,000 who are paying 25 percent or more for shelter differ insignificantly from the extremely low-income shelter poor, but for all higher income classes, many more people pay 25+ percent of income (the conventional standard) than are shelter poor: In the $5,000-$9,999 class, 3.5 million households paying 25 percent or more vs. 2.5 million shelter poor; among elderly with incomes of $10,000 or more, 2 million paying 25 percent or more vs. only 360,000 shelter poor (Figs. 4.3 and 4.4). The shelter poverty approach thus reveals that the housing affordability problem among the elderly is narrower and deeper than the traditional standard suggests: Virtually every elderly household with income below $5,000 is shelter poor and can afford less than 25 percent of income for shelter, while very few elderly households with incomes of $10,000 or more are shelter poor even if they are paying considerably more than 25 percent of income for shelter.

Elderly households are slightly but not substantially more likely to be shelter poor than nonelderly households. Among homeowners, 26 percent of elderly and 23 percent of nonelderly are shelter poor; among renters, 45 percent of elderly and 41 percent of nonelderly are shelter poor. At the same time, however, shelter poverty does decline sharply with income, and a greater proportion of nonelderly households are in higher income classes than elderly; thus, controlling for income elderly households have much lower rates of shelter poverty than nonelderly, except for the very lowest income class (under $5,000), in which nearly all elderly and nonelderly are shelter poor (Fig. 4.5 and 4.6). It should not be surprising that for a given income an elderly household is less likely to be shelter poor than a nonelderly household, since nonelderly households on average are larger and have higher nonshelter consumption costs and higher taxes as well as higher housing costs. Simply put, comparison of elderly and nonelderly households provides yet another view of the extreme concentration of shelter poor-elders at the very lowest incomes.

Elderly Homeowners

Of the 5.8 million shelter-poor elderly in 1985, 3.5 million were homeowners. Of these elderly homeowners, the number of shelter-poor single women (1.43 million) is just about the same as the number of shelter-poor married-couple households (1.37 million), each accounting for about 40 percent of shelter poor elderly homeowners. (Fig. 4.7) At the same time, though, single women are only 30 percent of all elderly homeowners, and married couples are 50 percent, so the near equality in the numbers shelter poor is actually indicative of a much higher incidence of shelter poverty among single-women homeowners (35 percent) than married-couple homeowners (20 percent).

About 1.6 million (46 percent) of the shelter-poor elderly homeowners have incomes of under $5,000, and an equal number have incomes of $5,000 to $9,999 (Fig. 4.8). While more than 90 percent of the shelter-poor elderly homeowners have incomes of less than $10,000, only 36 percent of all elderly homeowners have such incomes. Thus, the 3.5 elderly homeowners who are shelter poor comprise a very substantial population in need, yet they are only 26 percent of all elderly homeowners.

As with all elderly, the number of homeowners paying 25 percent or more of income for shelter is nearly 50 percent greater than the number shelter poor (5.3 million vs. 3.5 million). This disparity varies little by household type, but dramatically by income: for incomes below $5,000 the two approaches give comparable results, but for higher-income classes the number paying 25 percent or more far exceeds the number shelter poor, and the gap becomes proportionately greater with increasing income; only 8 percent of shelter-poor elderly homeowners have incomes of $10,000 or more, but 28 percent of elderly homeowners paying 25 percent of income or more have such higher incomes (Fig. 4.8).

Although there are about equal numbers of shelter-poor elderly homeowners with incomes of under $5,000 and between $5,000 and $9,999, most of those in the lowest income class are 1-person households, and most in the next higher class are 2-or-more person households, consistent with the overall income distributions of elderly housholds (Figs. 4.9 and 4.10). Virtually all elderly homeowners of all sizes and types with incomes of under $5,000 are shelter poor (Figs. 4.11 and 4.12), but since single women comprise most of the extremely low-income elderly homeowners, they account for more than 1 million of the 1.6 million shelter poor in this income class (Fig. 4.9). In the $5,000-$9,999 class, by contrast, most elderly-homeowner households have 2 persons, so that they are nearly 1.2 million of the 1.6 million shelter poor in this income group (including 870,000 married couples and 220,000 other female householders); single women are 380,000 of the shelter poor in this income range. More than 80 percent of 2-or-more person elderly homeowners with incomes of $5,000-$9,999 are shelter poor, compared with under 25 percent of 1-person households (Fig. 4.11 and 4.12).

Among 1-person elderly homeowners, the shelter-poverty and conventional standards closely correspond only for the income class under $5,000, as already indicated for all households; for all higher incomes the conventional approach suggests a much greater affordability problem (Figs. 4.9 and 4.11). Among 2+person, elderly-homeowner households, on the other hand, the number shelter poor exceeds the number paying 25 percent or more for both the lowest and the $5,000-$9,999 income class, with the gap developing only at higher incomes (Fig. 4.10 and 4.12). The differing relationships by household size are due to the different shelter-poverty affordability scales for 1-person and 2-person elderly: Single elderly have, on average, lower nonshelter costs, and most can thus afford the prevailing homeowner housing costs if their incomes are about $6,000 or more; 2-person elderly have higher average nonshelter costs and thus need incomes of $10,000 or more to be able to afford prevailing housing costs paid by elderly homeowners.

Elderly Renters

There are 2.3 million shelter-poor elderly renter households. Over 45 percent of elderly renters are shelter poor, compared with 26 percent of elderly homeowners. As with homeowners, these figures on the extent of the housing affordability problem based on the shelter poverty approach can hardly be said to exaggerate the problem, since the number of elderly renters paying 25 percent or more of their incomes for shelter is considerably greater -- 3.1 million households, 62 percent of elderly renters (Fig. 4.13).

Single elderly women are not only the modal type of shelter-poor elderly renters, they are even a majority: Nearly 1.4 million of the 2.3 million shelter poor renters, 60 percent, are women living alone. Since single women are 54 percent of all elderly renters, it is not so surprising that they should account for a majority of shelter-poor elderly renters; nonetheless, as we see, their proportion of the shelter poor does exceed their proportion of all elderly renters. As with elderly homeowners, elderly single women renters are more likely to be shelter poor than any other type of household except for women householders who share their homes with nonspouses. Fully 50 percent of all single elderly women renters are shelter poor. The number of elderly renters of each household type paying 25 percent or more is greater than the number shelter poor, but the proportional gap varies little by household type; thus, even though nearly two thirds (1.8 million) of all single elderly women exceed this standard, they are about 60 percent of all elderly renters paying 25 percent or more.

Although the qualitative pattern of shelter poverty by household type is similar for elderly renters and homeowners, the incidence of shelter poverty

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among each type of renter households is about 15 percent greater than among elderly homeowners of the same type. While half of all single elderly women are shelter poor, recall that just a little over a third of elderly single women homeowners are shelter poor, as such homeowners have, on average, considerably lower housing costs and slightly higher incomes than single-women renters.

Married-couple households, which are nearly 40 percent of shelter-poor elderly homeowners, are just 16 percent of shelter-poor elderly renters (380,000). This is a consequence, though, of the relatively lower number of married-couple elderly renters (1 million renters vs. 7 million homeowners), not a less severe affordability problem: 35 percent of married-couple elderly renters are shelter poor compared with just 20 percent of married-couple elderly homeowners. Note, though, that married couples have the lowest incidence of shelter poverty of all elderly renters, a pattern similar to that of elderly homeowners. Finally, there are 560,000 elderly married couple renters paying 25 percent or more of their incomes for shelter (Fig. 4.13), a little over 50 percent of such households, again considerably greater than the number shelter poor.

The third most numerous group of elderly renters are single men, who are more likely to be shelter poor than married couples but considerably less than single women. There are nearly 300,000 shelter-poor elderly single men, for an incidence of 40 percent shelter poor, 5 percentage points higher than the percentage for married couples and 10 points lowert than that for single women. They account for 13 percent of all shelter-poor elderly renters, about the same proportion as the 14 percent of all elderly renters who are single men. About 57 percent of such households are paying 25 percent or more of their incomes for shelter, a figure which again lies about 5 percentage points above that for couples and 10 percentage points below that for single women.

When we examine shelter poverty among elderly renters by income we find even greater concentration at the very lowest incomes. More than 1.3 million of the 2.3 million shelter-poor elderly renters have incomes of less than $5,000; this is 58 percent of all shelter poor renters. Another 900,000 (39 percent) have incomes between $5,000 and $9,999 (Fig. 4.14), so that 97 percent of shelter-poor elderly renters have less than $10,000 in income. As with homeowners, in the below $5,000 income class, the number of renters shelter-poor very slightly exceeds the number paying 25% or more, but in all higher income classes the number paying 25 percent or more greatly exceeds the number shelter poor.

Nearly 90 percent of elderly renters with incomes under $5,000 are shelter poor. Indeed, the only reason this figure is not 100 percent is that 10 percent of

elderly renters report paying no cash rent. By definition a household with no cash rent cannot be shelter poor; even though such a household may still have such low income as to be unable to meet its nonshelter needs at a minimum level of adequacy, housing costs clearly are not a contributor to this deprivation.

A little less than half of elderly renters between $5,000 and $9,999 are shelter poor, and only 4 percent of those with incomes of $10,000 or more. By contrast, 87 percent of renters below $5,000 are paying 25 percent of more of their incomes for shelter, 72 percent of those with incomes of $5,000 to $9,999, and 30 percent of those with incomes of $10,000 or more.

The number of shelter-poor elderly homeowners is about the same in each of the two lowest income classes, unlike renters where shelter povery is much more concentrated at the very lowest incomes. Since elderly renters have, on average, higher housing costs than homeowners, it might be expected that shelter poverty among elderly renters would reach higher up the income distribution rather than the opposite. The explanation for this apparent anomaly is to be found in the much greater proportion of elderly renters who constitute 1-person households. Controlling for household size, we find that above the very lowest income class elderly renters have higher rates of shelter poverty than elderly homeowners, a finding consistent with the higher housing costs of elderly renters. (Compare Figs. 4.15 to 4.18 for renters vs. 4.9 to 4.12 for homeowners.)

For example, 38 percent of 1-person-household elderly renters with incomes of $5,000 to $9,999 are shelter poor compared with 24 percent of 1-person elderly homeowners in the same income range (Figs. 4.17 vs. 4.11). Of all shelter-poor, 1-person-household elderly renters, 68 percent have incomes below $5,000, and 32 percent have incomes of $5,000 to $9,999; of all shelter poor 1-person elderly homeowners, 70 percent have incomes below $5,000, and 27 percent have incomes between $5,000 and $9,999. Interestingly, by coincidence, the number of 1-person shelter-poor elderly renters with incomes under $10,000 is exactly the same as the number of 1-person-household shelter-poor elderly homeowners with incomes under $10,000 (1.66 million for each); this number is 63 percent of all 1-person-household elderly renters below $10,000, but 53 percent of all 1-person-household elderly homeowners below $10,000.

Among elderly households of 2 persons or more, there are, of course, many more total households and many more shelter poor than in smaller households, but controlling for the differences in absolute number we discover the effects on elderly renters of somewhat higher prevailing housing costs. In this case, though, the differences are not apparent in the $5,000 to $9,999 income class,

but in the next higher class, since 2-or-more person households have higher average nonshelter costs and thus affordability is dominated by income not by housing costs for households under $10,000. Thus, 86 percent of 2+ person-household elderly renters and 87 percent of 2+ person-household elderly homeowners with incomes of under $10,000 are shelter poor. In the $10,000 to $14,999 income class, the percentages shelter poor drop way off among both renters and homeowners, but do differ significantly: over 16 percent of 2+ person elderly renters vs. under 12 percent of 2+ person elderly homeowners are shelter poor. In the aggregate, 61 percent of elderly 2-or-more person elderly renters with incomes of under $15,000 are shelter poor, compared with 50 percent of elderly 2-or-more person homeowners with incomes of under $15,000.

The Housing Affordability Gap

A household paying more than it can afford for shelter faces an economic deficit or gap between what it is are actually paying for shelter and what it can afford according to the specified standard of affordability. For some households the affordability gap may be quite small and not severely restrict how much of their income they have left for nonshelter items. In other cases, though, the affordability gap may be quite substantial; indeed, on the shelter-poverty scale some households can actually afford to pay nothing for shelter, so that their affordability gap is equal to their entire shelter cost. Nearly 3 million elderly households -- 16 percent of all elderly -- fall below the zero point of affordability.

As a first indication of the affordability gaps faced by elderly who are paying more than they can afford, we can compare the incomes and housing costs of those who are shelter poor and paying 25 percent or more for shelter with the incomes and housing costs of all elderly. Among elderly homeowners, as previously noted, shelter poverty is relatively more concentrated at lower incomes: the median income of those shelter poor is only $5,400, which is about 40 percent of the $13,730 median of all elderly homeowners, while the median income of those paying 25 percent or more is nearly $7,400, which is over 50 percent of the median for all elderly homeowners. This pattern varies little by household sizes and types.

These income figures might seem to imply that the affordability gap of elderly homeowners is simply an income gap. The housing cost figures, however, reveal the situation to be more complex. The median housing costs of elderly homeowners paying more than they can afford are higher than the median costs of all elderly homeowners: for those shelter poor, the median cost is $243 a month compared with $200 a month for all elderly homeowners,

higher by about 20 percent (with little variation by household size and type); for those paying 25 percent or more of their incomes for shelter, the median cost is $273 a month, about 35 percent greater (ranging from 28 to 50 percent by household type). What these findings suggest is that elderly homeowners experiencing housing affordability problems are not only suffering the effects of considerably lower incomes; they are also, on average, bearing the burden of somewhat higher housing costs than other elderly homeowners.

The overall pattern for elderly renters is similar to that of homeowners, but there are some significant differences in the actual figures due to the generally lower incomes and higher housing costs of elderly renters. The median income of shelter-poor elderly renters is about $4,300, which is 55 percent of median of all elderly renters. Although this median is more than $1,000 lower than that for shelter poor homeowners, the homeowner-renter difference is entirely due to the greater proportion of 1-person renters; controlling for household size and type, 2-person-household shelter-poor renters are a little poorer than shelter-poor homeowners, while 1-person-household shelter-poor renters have virtually the same incomes as homeowners. The median income of elderly renters on the 25 percent of income standard is $6,000, fully 77 percent of the median of all elderly renters. Comparing renters and homeowners, renters paying 25 percent or more of income are $1,400 poorer on average than homeowners paying 25 percent or more, a somewhat wider differential than the $1,100 on the shelter-poverty standard.

Elderly renters paying more than they can afford have higher median housing costs than all elderly renters, for all sizes and types of households. Shelter-poor elderly renters have median housing cost of $316 a month, and those paying 25 percent or more $322 a month, compared with $270 for all elderly renters. On the shelter-poverty standard, median cost differences by household type are about $40-55 a month; on the 25-percent-of-income standard, the differences range from about $45 to $70 a month.

Since elderly renters paying more than they can afford for shelter have considerably higher housing costs, but comparable or lower incomes, on average, than elderly homeowners paying more than they can afford, we should expect elderly renters to face bigger gaps between what they are paying for shelter and what they can afford -- from both the shelter-poverty and the conventional approaches. This hypothesis has been confirmed by calculations of actual dollar affordability gaps, using the detailed cross-tabulations of elderly renters and homeowners paying more than they can afford by income, housing cost, and household type. Of those elderly shelter poor, the mean affordability gap for homeowners is $215 a month and for renters $241 per month. For 2-or-more person households the homeowner-renter shelter poverty affordability gaps are quite different -- $237 for homeowners vs. $324 for renters; for

1-person shelter-poor households, homeowners and renters differ only slightly in their mean affordability gaps -- $192 vs. $210 (Figs. 4.19 and 4.20).

The affordability gaps on the 25-percent-of-income standard are all considerably lower than on the shelter-poverty standard. This is the case despite the generally higher housing costs of those paying 25 percent or more because of the fundamentally different concept of affordability embodied in the shelter- poverty standard. Many elderly who are shelter poor can afford considerably less than 25 percent of their incomes for shelter; as already indicated, 3 million households, half of all shelter-poor elderly, can afford nothing. This means that the low-income elderly who are shelter poor realistically face substantially larger gaps between what they are paying and what they can afford than the traditional approach suggests.

Finally, the housing affordability gaps of individual elderly households can be summed over all households paying more than they can afford to arrive at the aggregate housing affordability gap, which provides a useful measure of the economic scale of the affordability problem and a basis for policy analysis. The aggregate annual shelter-poverty affordability gap for elderly households was $15.8 billion in 1985 (Table 4.3). By way of comparison, the aggregate annual affordability gap based on the 25-percent-of-income standard was $18.9 billion. That is, even though the mean gap per household is lower on the traditional standard than the shelter-poverty standard, there are 8.4 million elderly households paying 25 percent or more of their incomes for shelter compared with 5.9 million shelter poor. Thus, to reiterate, the shelter-poverty approach reveals an affordability problem that is narrower but deeper -- fewer households in need, but greater need per household.

FIG. 4.1. ELDERLY HOUSEHOLDS
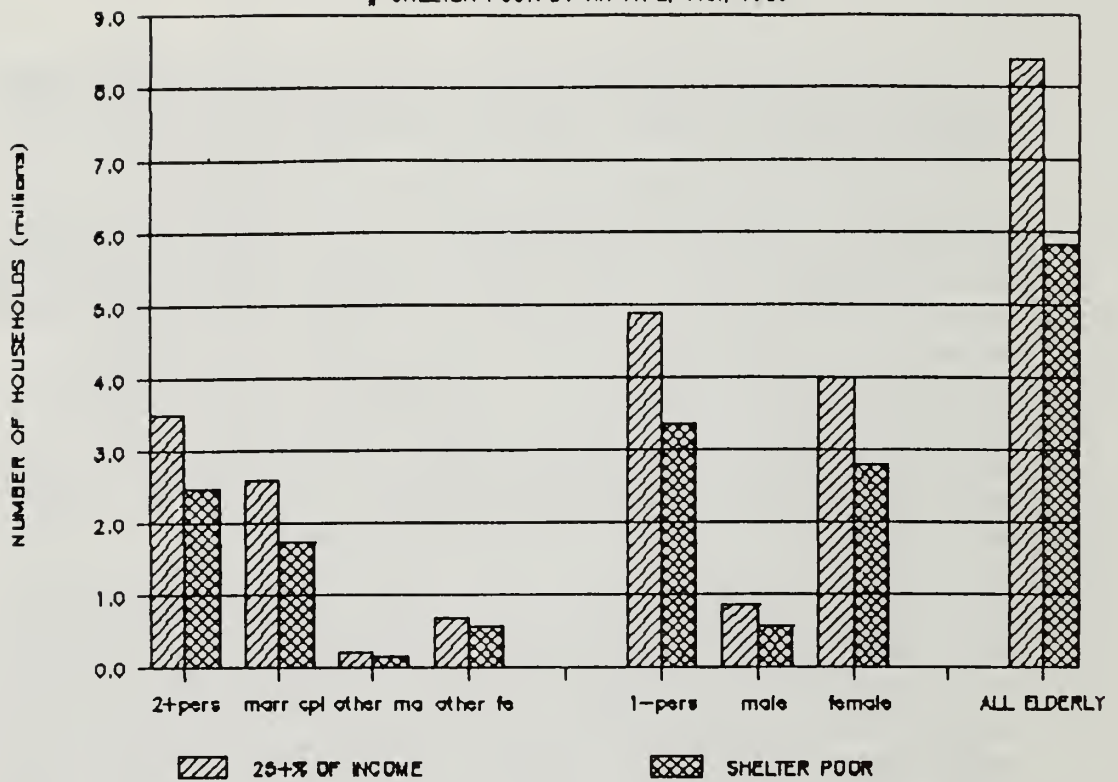
SHELTER POOR BY HH TYPE, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

2+pers   marr cpl   other ma   other fe   1-pers   male   female   ALL ELDERLY

▨ 25+% OF INCOME   ▨ SHELTER POOR

FIG. 4.2. ELDERLY HOUSEHOLDS

% SHELTER POOR BY HH TYPE, U.S., 1985

PERCENT OF HOUSEHOLDS

2+pers   marr cpl   other ma   other fe   1-pers   male   female   ALL ELDERLY

▨ 25+% OF INCOME   ▨ SHELTER POOR

FIG. 4.3. ELDERLY HOUSEHOLDS

Legend: ▨ 25+% OF INCOME   ▨ SHELTER POOR

Y-axis: NUMBER OF HOUSEHOLDS (millions)
X-axis: <$5, $5-10, $10-15, $15-20, $20-30, $30-40, $40+

FIG. 4.4. ELDERLY HOUSEHOLDS

Legend: ▨ 25+% OF INCOME   ▨ SHELTER POOR

Y-axis: PERCENT OF HOUSEHOLDS
X-axis: <$5, $5-10, $10-15, $15-20, $20-30, $30-40, $40+, <$10, <$15, ALL
INCOME ($thousands)
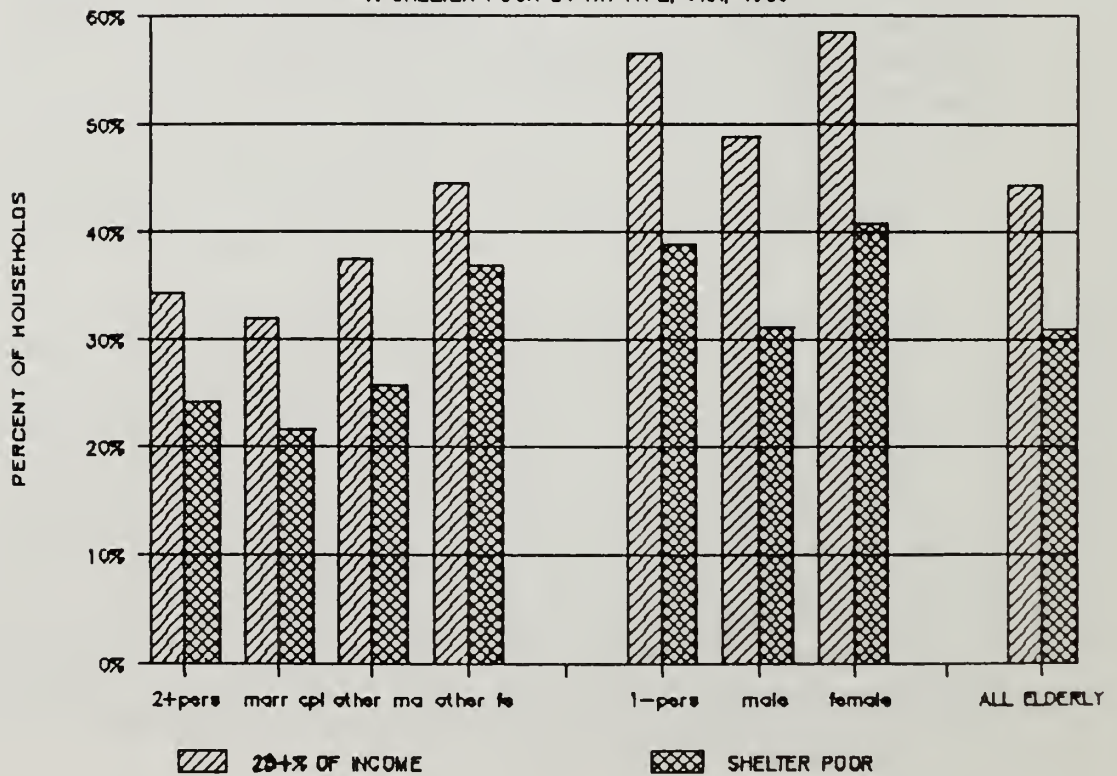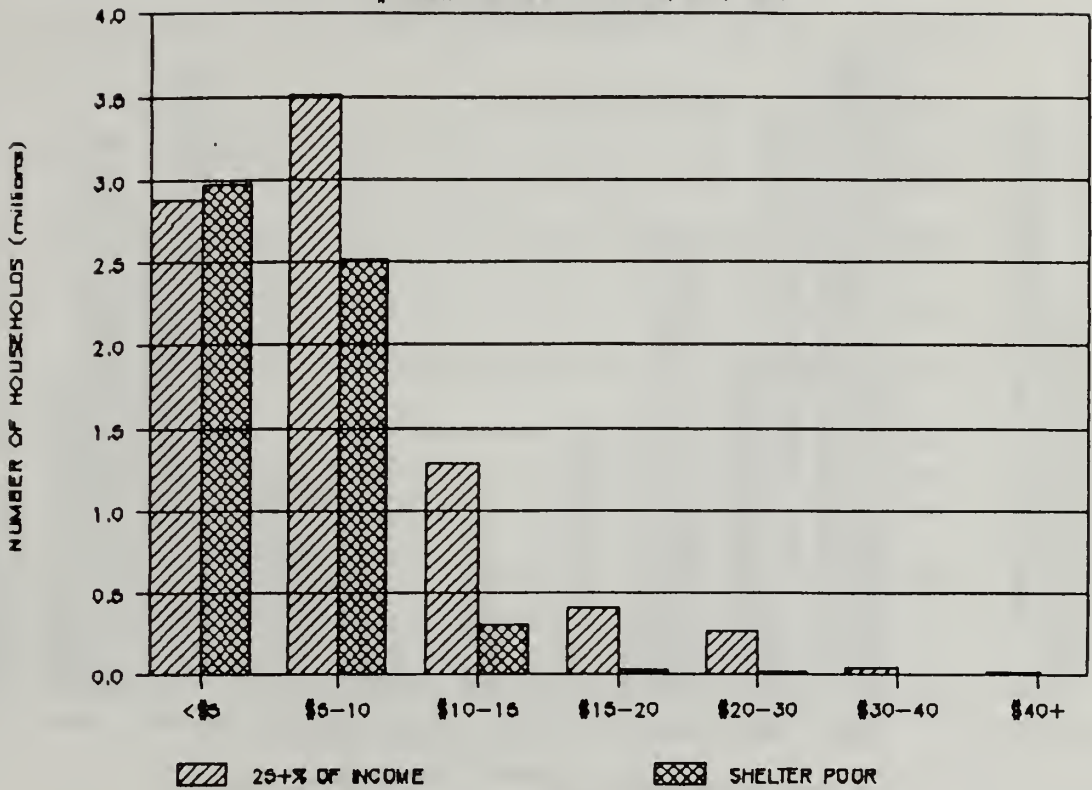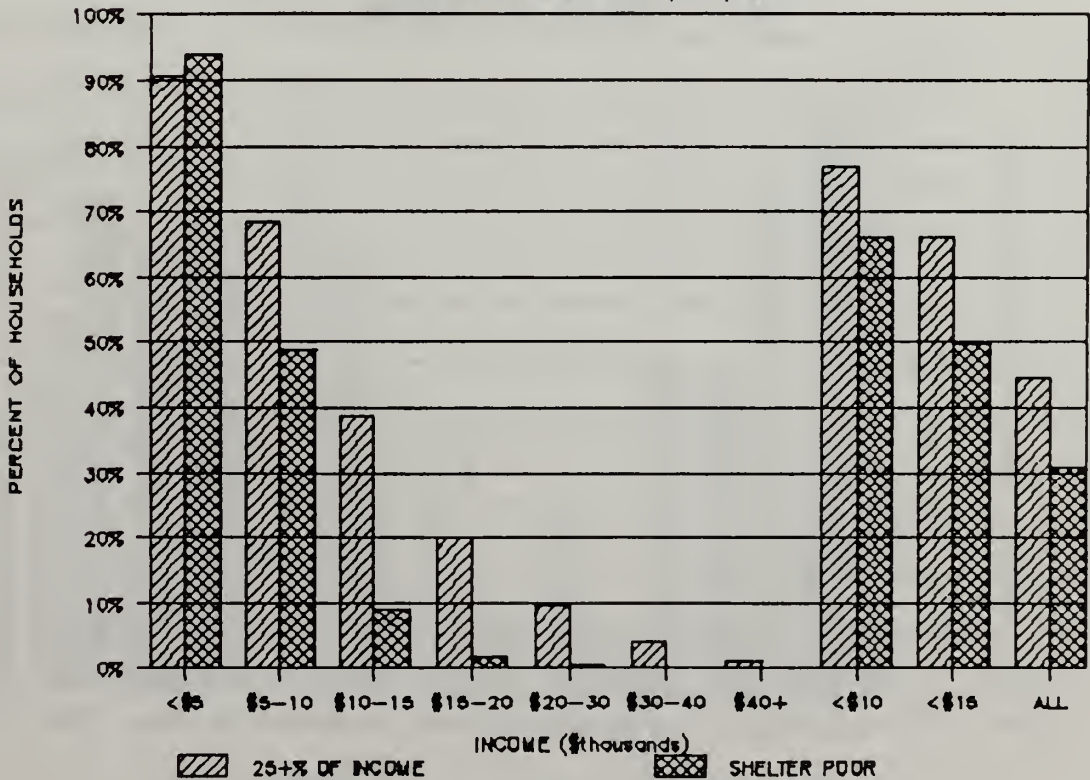
FIG. 4.5. ELDERLY & NON-ELD. HOMEOWNERS

% SHELTER POOR BY INCOME, U.S., 1985
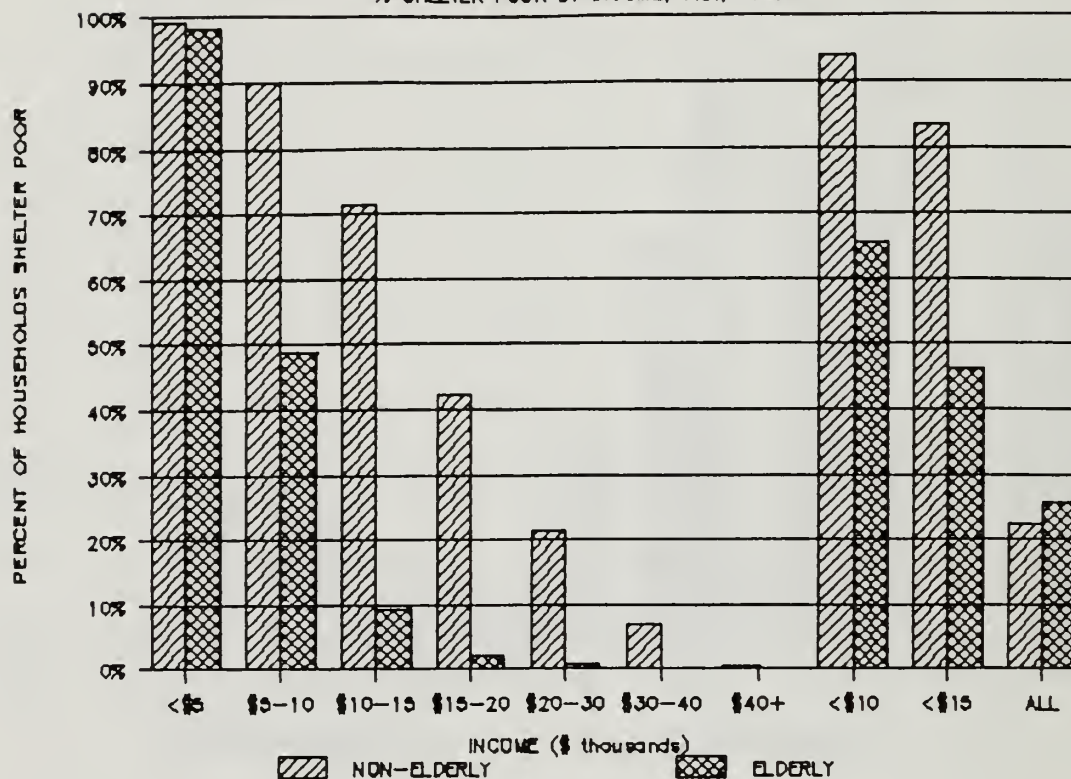
FIG. 4.6. ELDERLY & NON-ELD. RENTERS

% SHELTER POOR BY INCOME, U.S., 1985
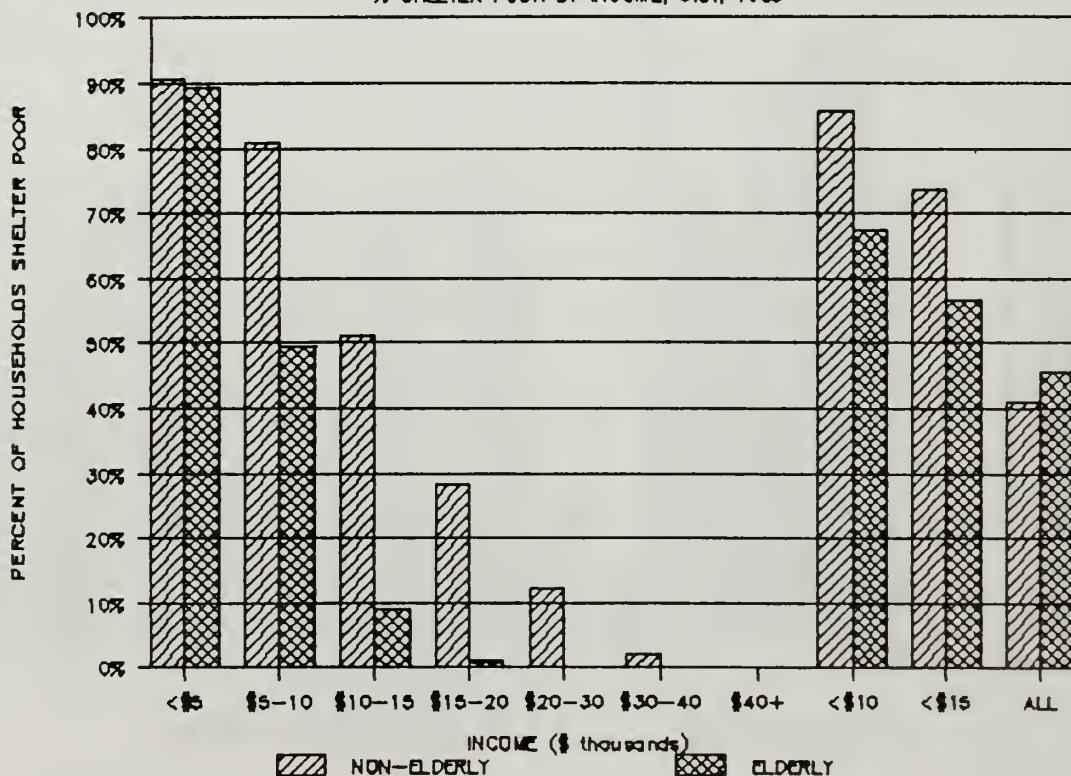
FIG. 4.7. ELDERLY HOMEOWNERS
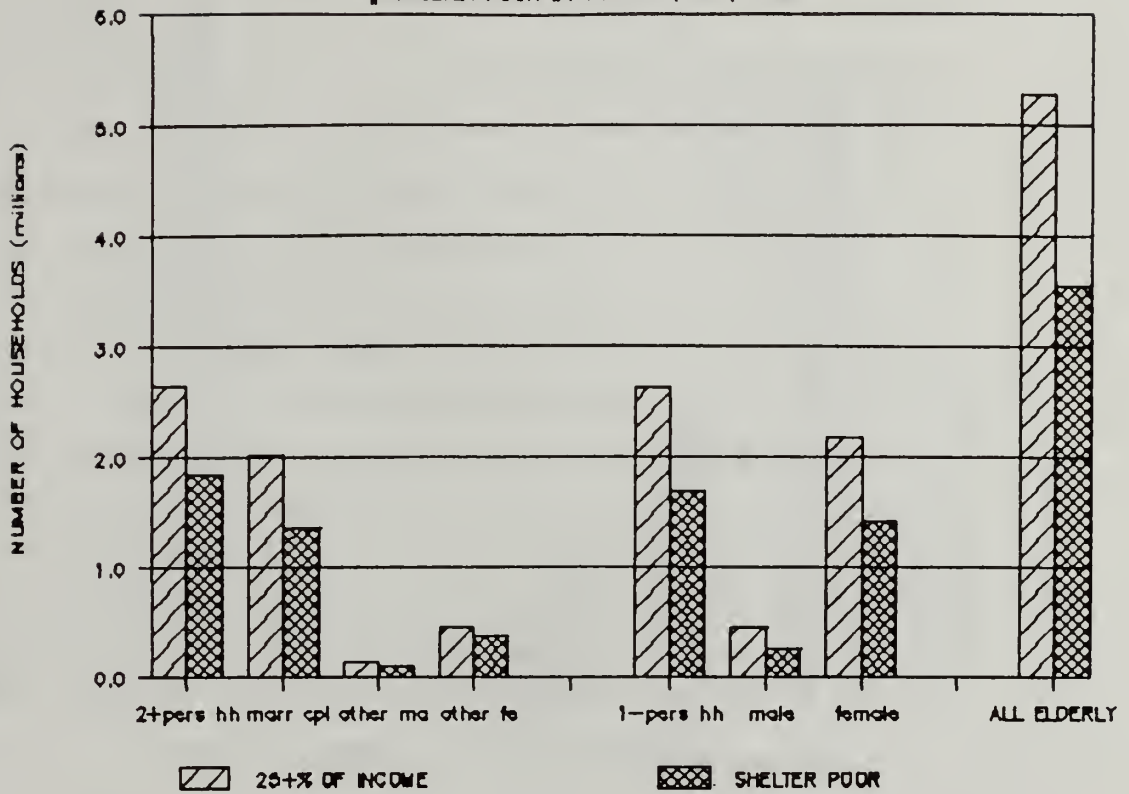
SHELTER POOR BY HH TYPE, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

2+pers hh   marr cpl   other ma   other fe   1-pers hh   male   female   ALL ELDERLY

▨ 25+% OF INCOME   ▩ SHELTER POOR

FIG. 4.8. ELDERLY HOMEOWNERS

SHELTER POOR BY INCOME, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

Under $5k $5k–$10k $10k–$15k $15k–$20k $20k–$30k $30k–$40k $40k+

▨ 25+% OF INCOME   ▩ SHELTER POOR

FIG. 4.9. ELDERLY 1-PERSON HOMEOWNERS

SHELTER POOR BY INCOME, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

Under $5k $5k-$10k $10k-$15k $15k-$20k $20k-$30k $30k-$40k $40k+
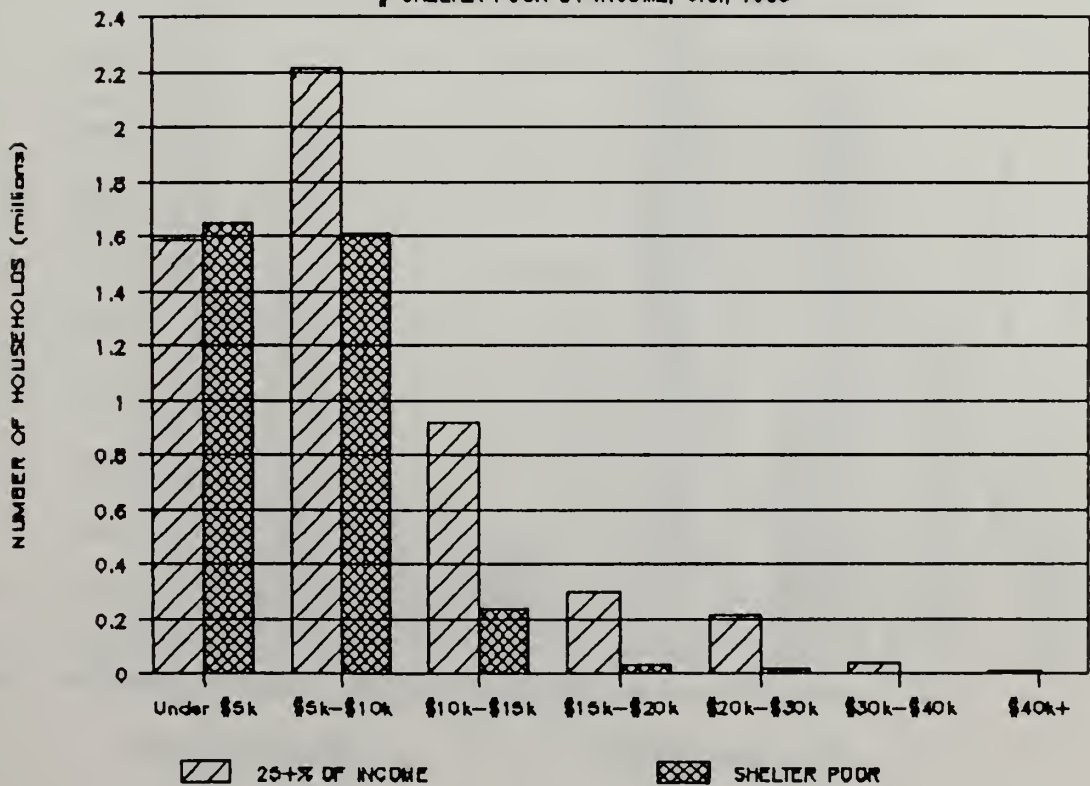
▨ 25+% OF INCOME   ▨ SHELTER POOR
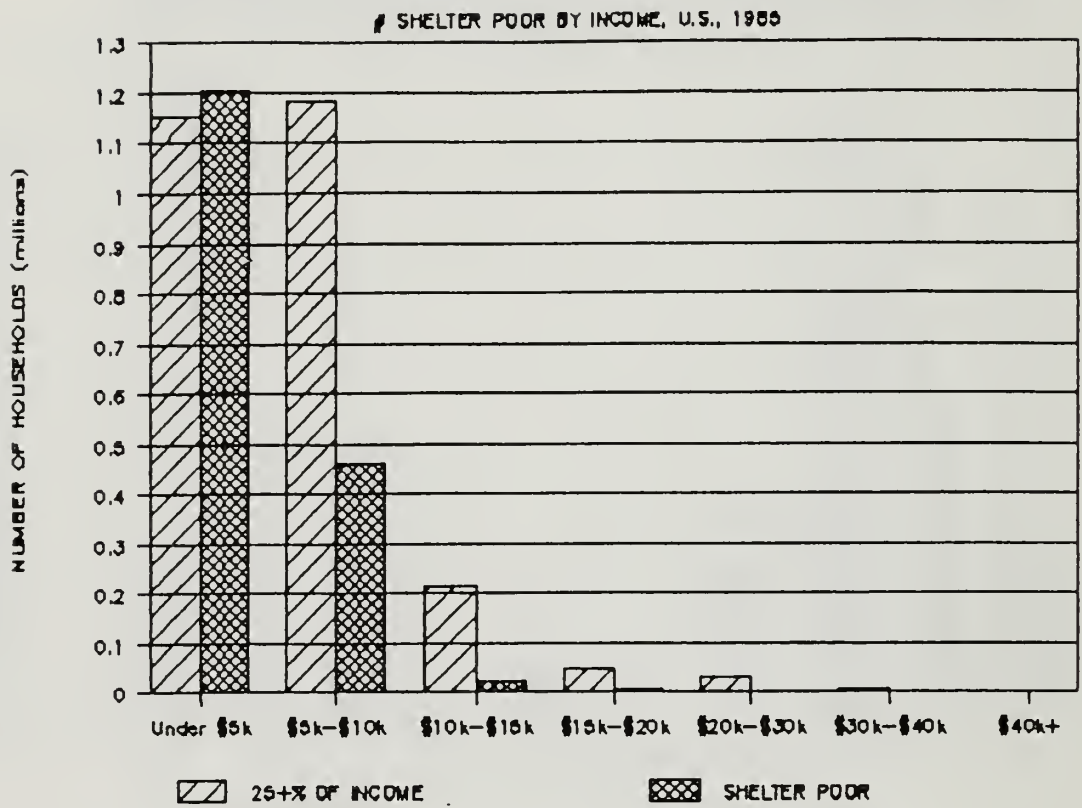
FIG. 4.10. ELDERLY 2+PERSON HOMEOWNERS

SHELTER POOR BY INCOME, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

Under $5k $5k-$10k $10k-$15k $15k-$20k $20k-$30k $30k-$40k $40k+

▨ 25+% OF INCOME   ▨ SHELTER POOR
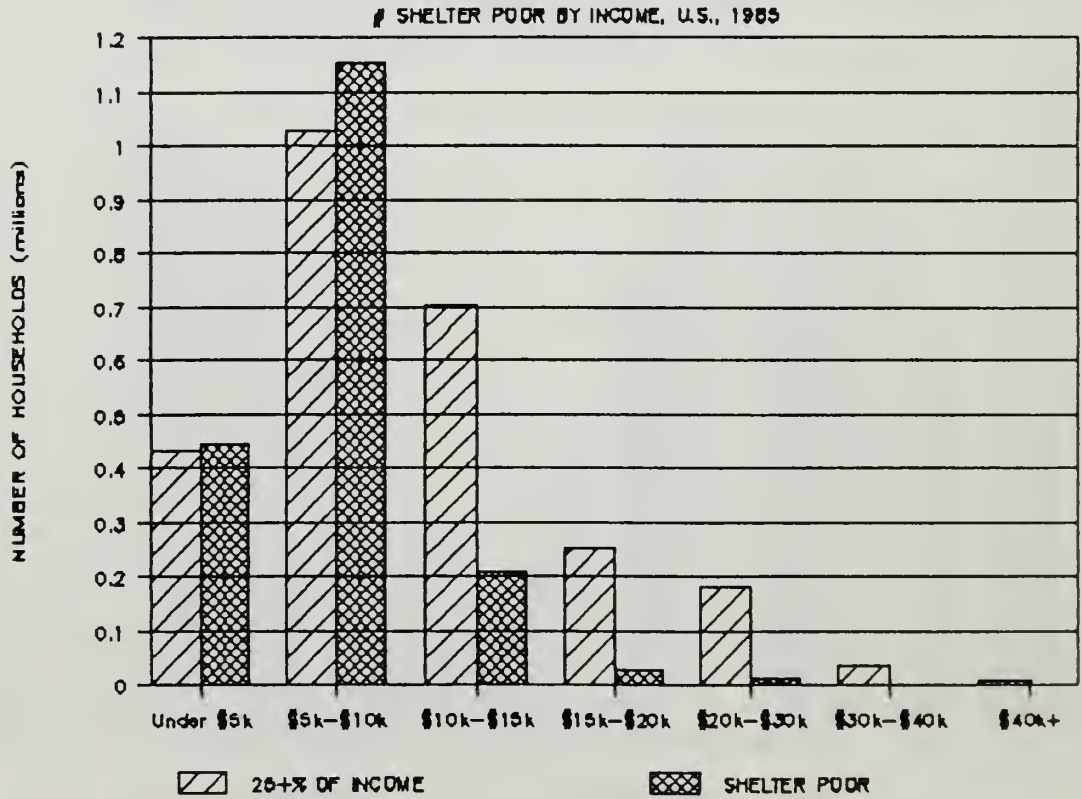
FIG. 4.11. ELDERLY 1-PERSON HOMEOWNERS

% SHELTER POOR BY INCOME, U.S., 1985
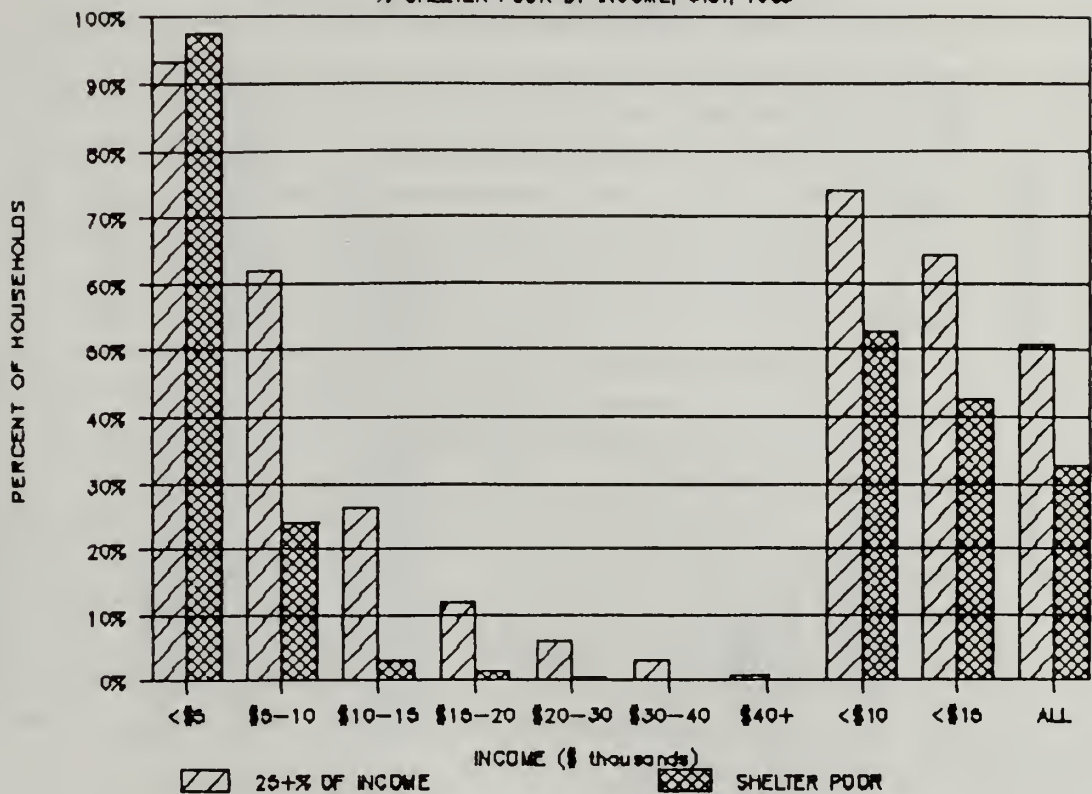
FIG. 4.12. ELDERLY 2+PERSON HOMEOWNERS

% SHELTER POOR BY INCOME, U.S., 1985
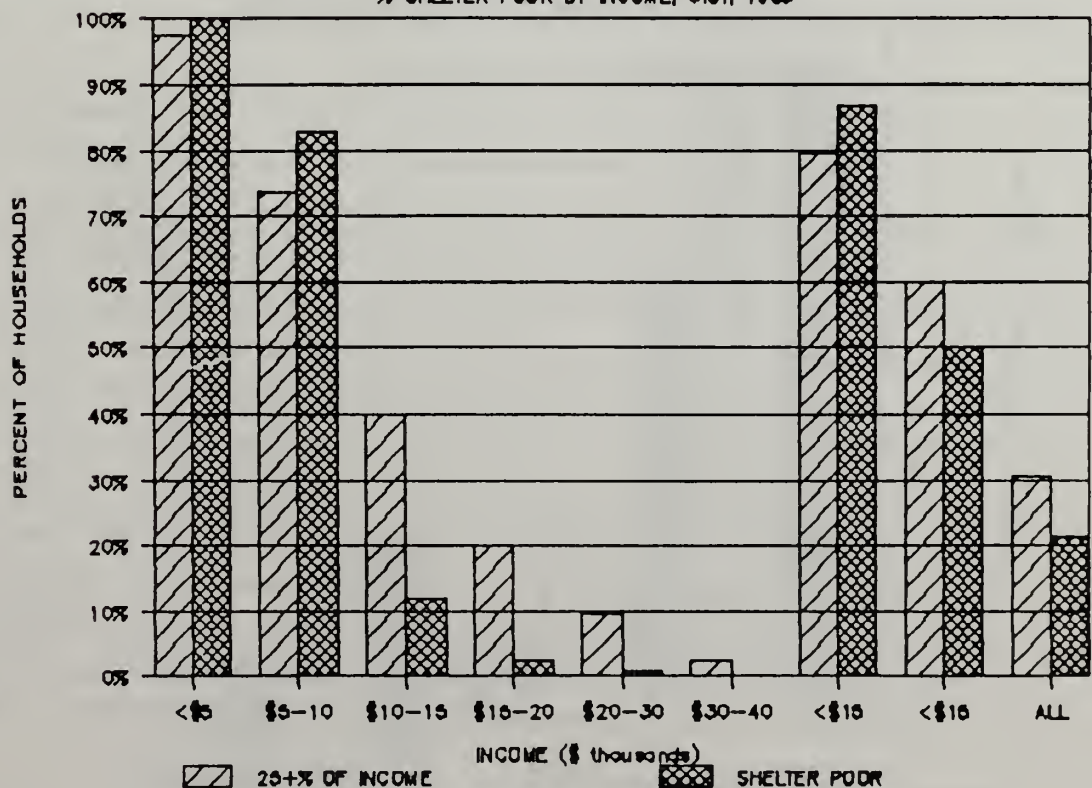
FIG. 4.13. ELDERLY RENTERS

 # SHELTER POOR BY HH TYPE, U.S., 1985

Legend: ▨ 25+% OF INCOME   ▧ SHELTER POOR
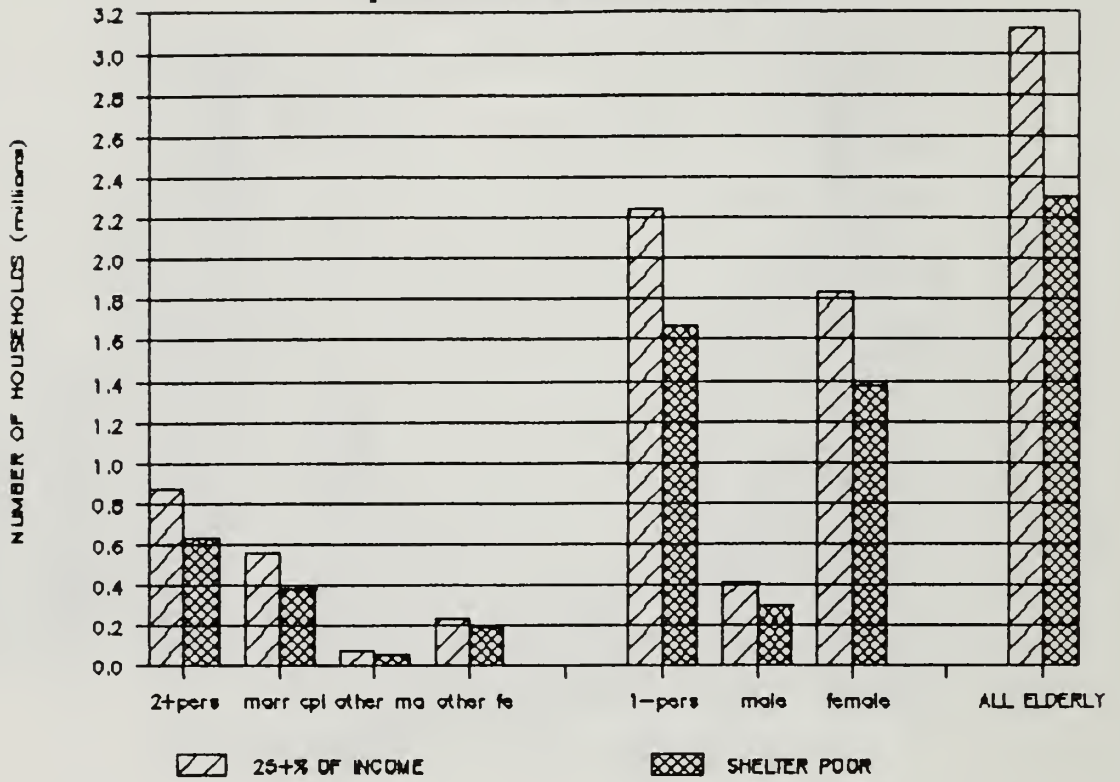
FIG. 4.14. ELDERLY RENTERS

 # SHELTER POOR BY INCOME, U.S., 1985

Legend: ▨ 25+% OF INCOME   ▧ SHELTER POOR
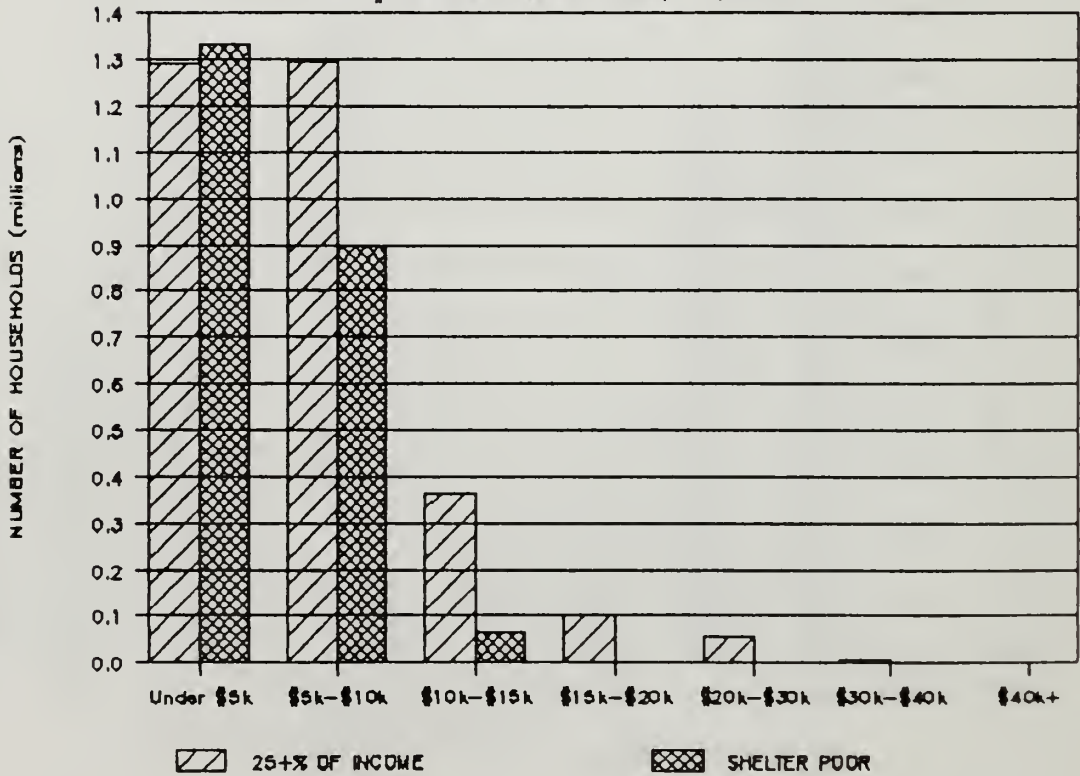
FIG. 4.15. ELDERLY 1−PERSON RENTERS

SHELTER POOR BY INCOME, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

Under $5k | $5k−$10k | $10k−$15k | $15k−$20k | $20k−$30k | $30k−$40k | $40k+

25+% OF INCOME   SHELTER POOR
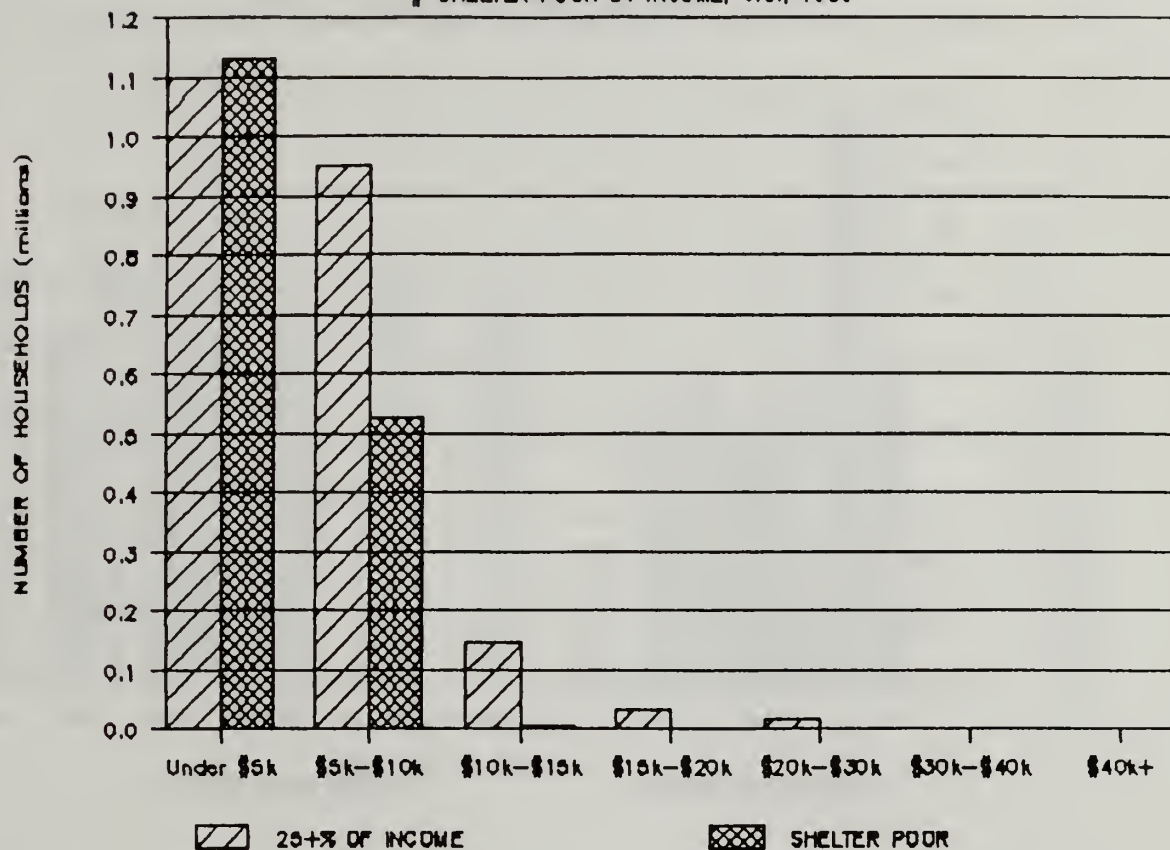
FIG. 4.16. ELDERLY 2+PERSON RENTERS

SHELTER POOR BY INCOME, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

Under $5k | $5k−$10k | $10k−$15k | $15k−$20k | $20k−$30k | $30k−$40k | $40k+

25+% OF INCOME   SHELTER POOR
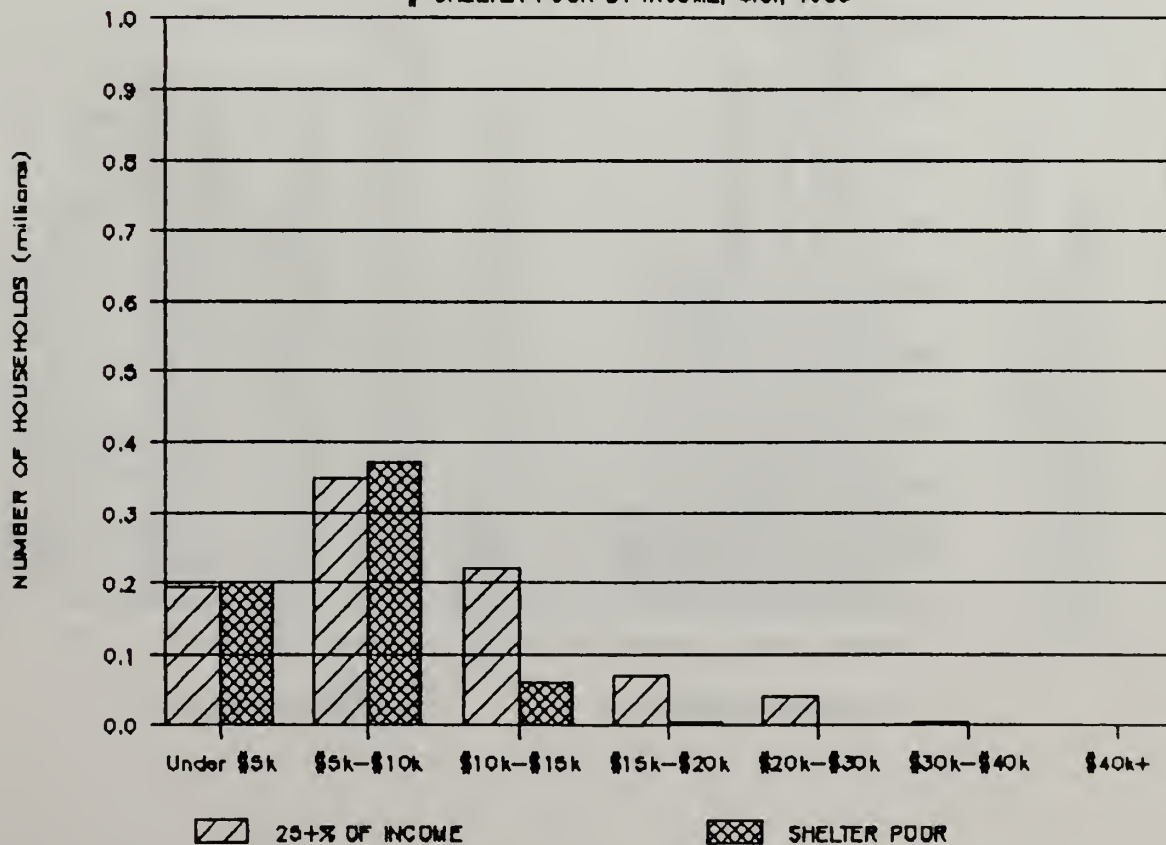
FIG. 4.17. ELDERLY 1-PERSON RENTERS

% SHELTER POOR BY INCOME, U.S., 1985
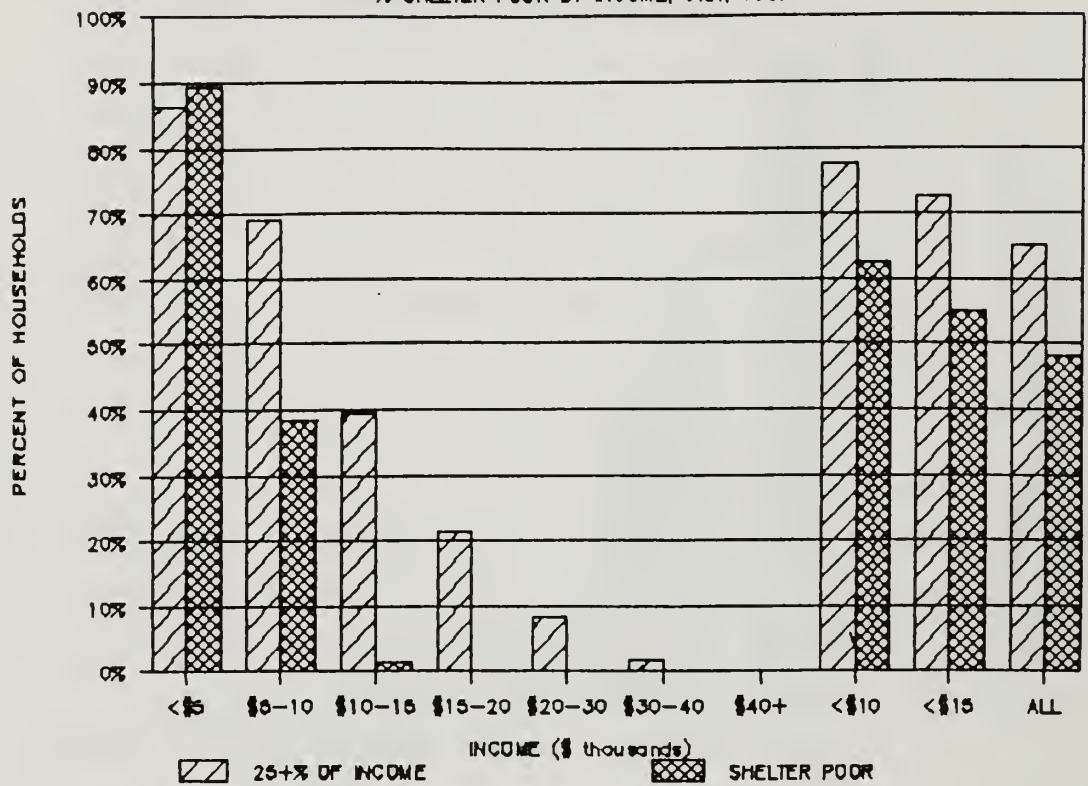
FIG. 4.18. ELDERLY 2+PERSON RENTERS

% SHELTER POOR BY INCOME, U.S., 1985
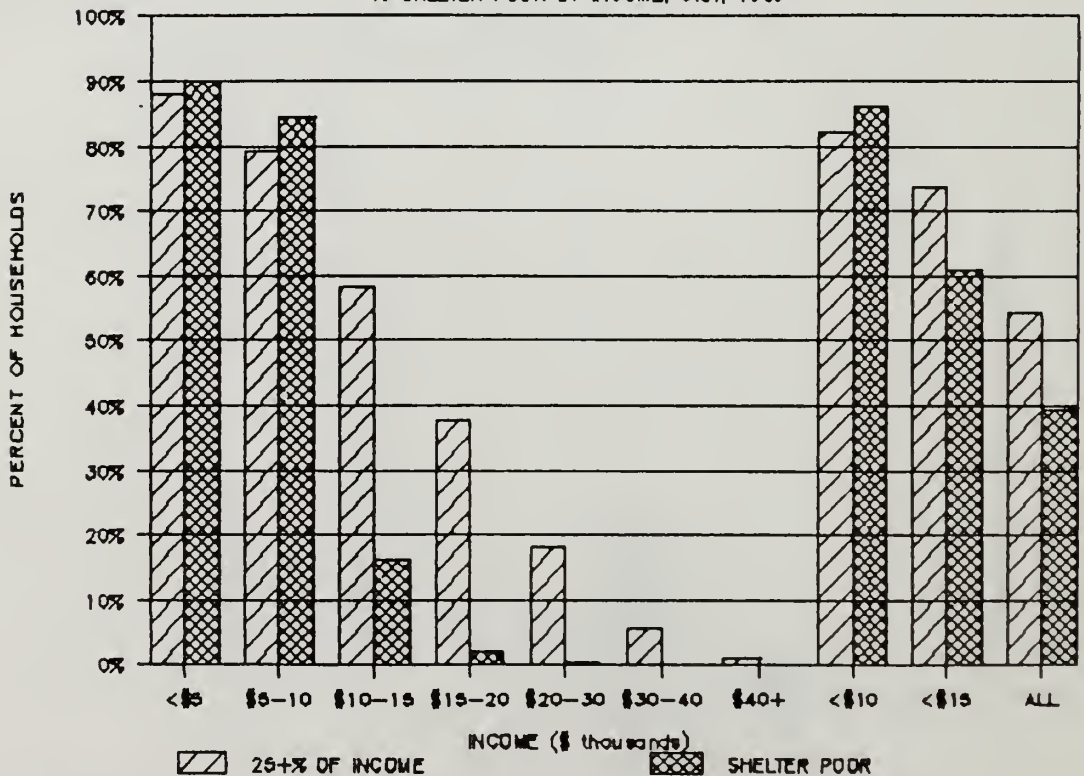
FIG. 4.19. ELDERLY OWNERS AFFORDABILITY

MEAN AFFORD. GAP BY HH TYPE, U.S., 1985

AFFORDABILITY GAP PER MONTH

| 2+pers hh | marr cpl | other ma | other fe | 1-pers hh | male | female | ALL ELDERLY |

//// 25+% OF INCOME   SHELTER POOR
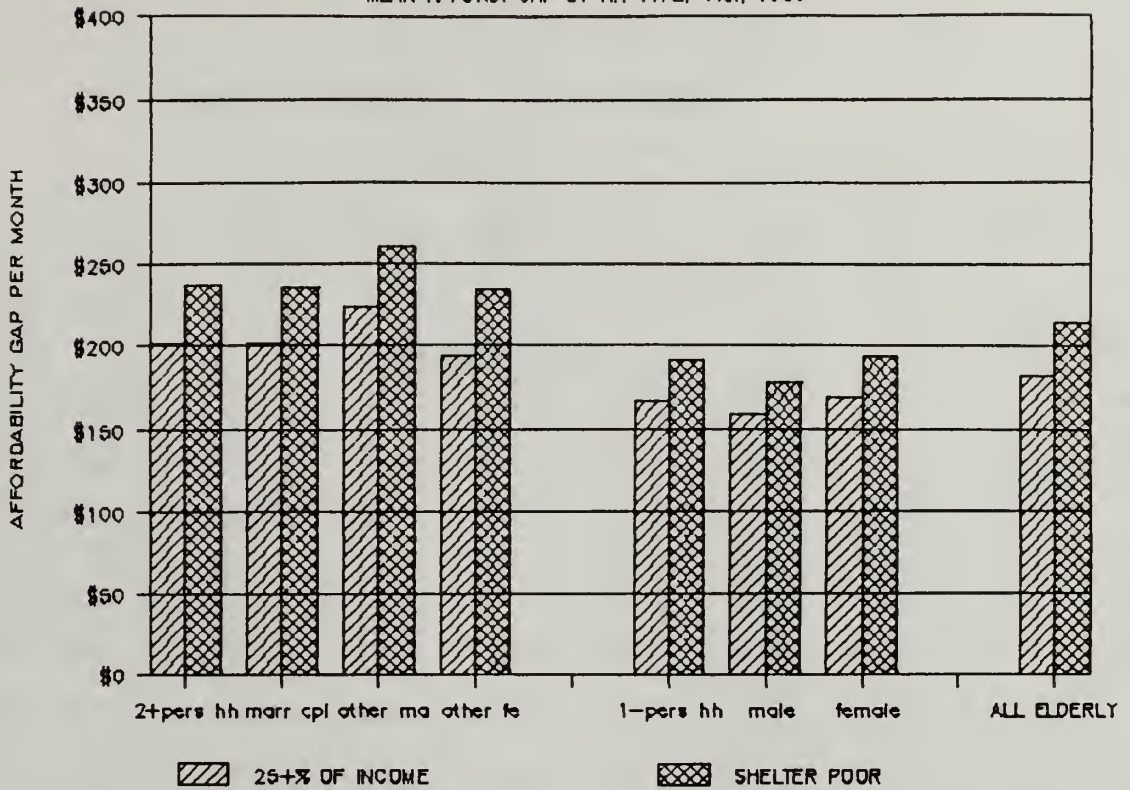
FIG 4.20. ELDERLY RENTERS AFFORDABILITY

MEAN AFFORD. GAP BY HH TYPE, U.S., 1985

AFFORDABILITY GAP PER MONTH

| 2+pers | marr cpl | other ma | other fe | 1-pers | male | female | ALL ELDERLY |

//// 25+% OF INCOME   SHELTER POOR
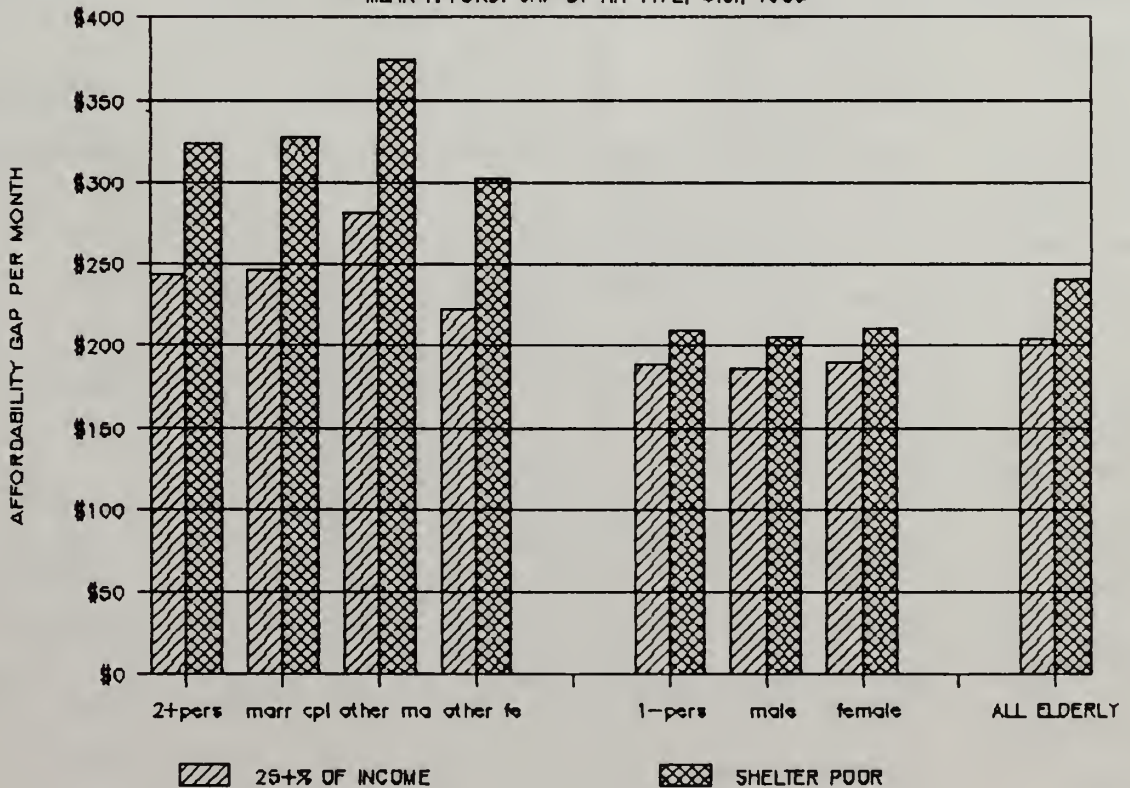
TABLE 4.1
NUMBER OF ELDERLY HOMEOWNERS (thousands)
U.S. 1985
ALL RACES

HOUSEHOLD TYPE	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 or more	Total All Incomes	MEDIAN INCOME
ALL HOUSEHOLDS								
2+pers hh	444	1,395	1,763	1,263	1,898	1,886	8,650	$17,860
marr. cpl.	295	1,046	1,432	1,057	1,582	1,587	7,000	$18,440
other male	24	74	101	70	92	105	466	$17,420
other female	125	275	230	136	224	194	1,184	$14,180
1-pers hh	1,234	1,915	819	416	509	289	5,184	$8,550
male	182	364	203	96	120	95	1,061	$9,780
female	1,052	1,551	616	320	389	194	4,123	$8,250
ELDERLY SUB-TOTAL	1,678	3,310	2,582	1,679	2,407	2,175	13,834	$13,730
NON-ELDERLY	1,455	2,068	2,961	3,589	9,060	23,569	42,312	$30,250
TOTAL	3,133	5,378	5,543	5,268	11,467	25,744	56,146	$27,820
SHELTER POOR								
2+pers hh	444	1,154	211	29	14	0	1,852	$7,090
marr. cpl.	295	867	170	24	12	0	1,368	$7,240
other male	24	62	13	2	1	0	103	$7,210
other female	125	224	28	3	1	0	381	$6,460
1-pers hh	1,203	461	25	6	3	0	1,698	$3,530
male	178	83	5	1	1	0	268	$3,770
female	1,026	378	20	4	2	0	1,430	$3,480
ELDERLY SUB-TOTAL	1,648	1,615	236	34	16	0	3,549	$5,390
NON-ELDERLY	1,445	1,862	2,115	1,514	1,940	667	9,543	$13,460
TOTAL	3,093	3,477	2,351	1,548	1,956	667	13,092	$9,970
PAYING 25% OR MORE OF INCOME								
2+pers hh	433	1,030	703	252	183	47	2,648	$9,330
marr. cpl.	290	776	568	209	152	38	2,033	$9,680
other male	23	56	46	16	9	4	154	$9,820
other female	120	198	89	27	22	5	461	$7,790
1-pers hh	1,152	1,184	216	49	31	6	2,638	$5,710
male	170	222	51	10	6	1	460	$6,350
female	982	962	165	39	25	5	2,178	$5,560
ELDERLY SUB-TOTAL	1,585	2,214	919	301	214	53	5,286	$7,390
NON-ELDERLY	1,270	1,093	1,405	1,416	2,906	3,951	12,041	$22,880
TOTAL	2,855	3,307	2,324	1,717	3,120	4,004	17,327	$15,520

TABLE 4.2
NUMBER OF ELDERLY RENTERS (thousands)
U.S. 1985
ALL RACES

	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 or more	Total All Incomes	MEDIAN INCOME
HOUSEHOLD TYPE								
				ALL HOUSEHOLDS				
2+pers hh	222	438	377	186	220	172	1,610	$11,920
marr. cpl.	97	292	276	128	148	132	1,070	$12,650
other male	27	33	30	11	29	30	159	$13,290
other female	98	113	71	47	43	10	381	$9,140
1-pers hh	1,270	1,377	372	157	197	81	3,452	$6,660
male	230	263	104	46	59	27	729	$7,560
female	1,040	1,114	268	111	138	54	2,723	$6,450
ELDERLY SUB-TOTAL	1,492	1,815	749	343	417	253	5,062	$7,860
NON-ELDERLY	3,942	4,325	4,369	3,961	5,540	5,074	27,218	$16,230
TOTAL	5,434	6,140	5,118	4,304	5,957	5,327	32,280	$14,460
				SHELTER POOR				
2+pers hh	200	370	61	4	1	0	635	$6,590
marr. cpl.	84	244	48	3	0	0	379	$7,160
other male	24	28	5	0	1	0	58	$5,890
other female	91	98	8	1	0	0	198	$5,410
1-pers hh	1,133	527	5	0	0	0	1,666	$3,680
male	196	95	2	0	0	0	292	$3,720
female	937	432	3	0	0	0	1,373	$3,660
ELDERLY SUB-TOTAL	1,333	897	66	4	1	0	2,301	$4,320
NON-ELDERLY	3,581	3,501	2,354	1,209	682	61	11,388	$7,870
TOTAL	4,914	4,398	2,420	1,213	683	61	13,689	$7,200
			PAYING 25% OR MORE OF INCOME					
2+pers hh	196	347	220	70	40	6	878	$8,500
marr. cpl.	84	231	161	50	29	4	559	$9,230
other male	23	26	19	5	6	1	81	$8,370
other female	88	90	40	15	5	0	238	$6,720
1-pers hh	1,099	952	146	34	16	1	2,247	$5,130
male	190	175	39	9	5	0	417	$5,530
female	909	777	107	25	12	0	1,830	$5,040
ELDERLY SUB-TOTAL	1,294	1,299	366	104	56	6	3,125	$6,030
NON-ELDERLY	3,335	3,693	2,972	1,979	1,716	474	14,170	$10,090
TOTAL	4,629	4,992	3,338	2,083	1,772	480	17,295	$9,020

TABLE 4.3
ELDERLY
HOUSING AFFORDABILITY
UNITED STATES
1985

SUMMARY

	RENTERS	HOMEOWNERS	TOTAL
SHELTER POOR HOUSEHOLDS:			
NUMBER (millions)	2.30	3.55	5.85
PERCENT	45.5%	25.7%	31.0%
HOUSEHOLDS BELOW ZERO AFFORDABILITY:			
NUMBER (millions)	1.24	1.71	2.95
PERCENT	24.5%	12.4%	15.6%
SHELTER POVERTY AFFORDABILITY GAP:			
GAP PER HOUSEHOLD ($ per month)	$241	$215	$226
AGGREGATE NATIONAL GAP ($billions per year)	$6.67	$9.17	$15.84
HOUSEHOLDS PAYING 25%+:			
NUMBER (millions)	3.13	5.29	8.41
PERCENT	61.7%	38.2%	44.5%
AFFORDABILITY GAP BASED ON 25%+:			
GAP PER HOUSEHOLD ($ per month)	$205	$183	$188
AGGREGATE NATIONAL GAP ($billions per year)	$7.67	$11.26	$18.93

SHELTER POVERTY AMONG BLACK AND HISPANIC ELDERLY

In 1985, 49 percent of black elderly and 44 percent of Hispanic elderly households were shelter poor, far above the 31 percent rate for elderly of all races (Fig. 5.1). The 850,000 black elderly who are shelter poor account for 14.4 percent of all shelter-poor elderly (compared with all elderly blacks who are just 9.1 percent of all elderly). The 270,000 Hispanic shelter-poor elderly are 4.5 percent of all shelter-poor elderly (compared with 3.2 percent of all elderly). Black elderly thus have about 60 percent greater likelihood of being shelter poor, and Hispanic elderly about 40 percent greater likelihood of being shelter poor than do white non-Hispanic elderly.

Elderly women living alone have, by far, the highest incidence of shelter poverty among both black and Hispanic elderly: 61 percent of single elderly black women and 57 percent of single elderly Hispanic women are shelter poor. They are also the modal type of shelter-poor elderly: Shelter-poor black women living alone are 44 percent of all shelter-poor elderly black households; shelter-poor Hispanic women living by themselves are 44 percent of all shelter-poor elderly Hispanic households. Such shelter-poor elderly women are also the poorest of all households, with both blacks and Hispanics having median incomes of under $3,000 a year.

Married couples are the second largest group of shelter-poor elderly among both blacks and Hispanics, but are much smaller proportions of the shelter poor and have much lower rates of shelter poverty than single women. Elderly black married couples have a 35 percent rate of shelter poverty -- a high rate, yet little more than half the 61 percent rate of single black women -- and account for 22 percent of shelter-poor black elders. Elderly Hispanic married couples have a 34 percent incidence of shelter poverty -- compared with 57 percent for single Hispanic women -- and are 28 percent of shelter-poor Hispanic elderly.

The median income of shelter-poor elderly black married couples is about $6,600 and for Hispanics about $7,100. While these incomes are very low, and married couples, on average, have higher nonshelter costs than singles, it is worth noting that these married couple medians are more than twice the median incomes of shelter-poor elderly black and Hispanic women living alone. What this means is that elderly black and Hispanic married couples who are shelter poor certainly do face a squeeze on their nonshelter necessities because of the gap between what they are paying for shelter and what they can afford, but this

deficit is, on average, not as severe as that faced by shelter-poor single elderly women.

For all elderly, and for each different type of elderly household, the incidence of shelter poverty among black and Hispanic elderly very substantially exceeds that of elderly of all races, and (with just one apparent exception*) the rate of shelter poverty among black elderly somewhat exceeds that of Hispanic elderly (Fig. 5.1). However, the different rates of shelter poverty among black, Hispanic, and all elderly disappear if controlled for income. For incomes below $5,000, 93 to 94 percent of black, Hispanic, and all elderly are shelter poor; in the $5,000-$9,999 range, the 54 percent incidence for Hispanic elderly is not significantly greater than the 50 percent of blacks and 49 percent of all elderly; in the $10,000 to $14,999 range, the 9 percent rate for all elderly is virtually the same as the 10 percent for blacks and 8 percent for Hispanic elderly (Fig. 5.2). That is, the higher rates of shelter poverty among black and Hispanic elderly are due entirely to the greater concentration of blacks and Hispanics at lower incomes.

Because a black or Hispanic elderly household of a given income is no more likely to be shelter poor than a white elderly household of the same income by no means implies, of course, that the black or Hispanic household lives in a housing environment of comparable quality. While housing affordability and housing quality are interconnected in the aggregate, the association is by no means perfect, with race as well as income entering into the relationship. A detailed analysis of the housing quality of black and Hispanic elderly households has not been carried out, but a limited examination of 1985 American Housing Survey data on dwelling unit conditions of households, controlling for income, confirms that black and Hispanic households are more likely to live in physically inadequate housing than whites of the same income.

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*In the category of 2-or-more-person elderly with other male householder (i.e., without spouse), the Hispanic rate of shelter poverty appears highest, and the differential among blacks, Hispanics, and all elderly is smaller than for other household types. However, such households are only a few percent of all black and Hispanic elderly, and the absolute numbers of such households are so small that these particular rates and differences are not statistically significant.

Among households with incomes below $5,000, 10 percent of blacks, 7 percent of Hispanics, and 6 percent of all races reported "severe" housing unit problems; and 22 percent of blacks, 20 percent of Hispanics, and 14 percent of all races reported "moderate" housing problems. Among households with incomes of $5,000 to $9,999, 7 percent of blacks, 6 percent of Hispanics, and 3 percent of all races reported "severe" problems; 22 percent of blacks, 18 percent of Hispanics, and 11 percent of all races reported "moderate" housing unit problems.

Black Elderly

There are 850,000 black elderly households that are shelter poor, compared with 950,000 paying 25 percent or more of their incomes for shelter. For each household type the number paying more than they can afford for housing on the traditional standard is greater than the number shelter poor, but the relative difference is less among blacks than among all elderly, primarily because black elderly are more concentrated at lower incomes where the approaches differ least. Of elderly blacks who are shelter poor, 68 percent have incomes below $5,000, and 29 percent between $5,000 and $9,999; among those paying 25 percent or more, 55 percent are below $5,000, and 31 percent between $5,000 and $9,999 (Figs. 5.3 and 5.4).

Of the black elderly who are shelter poor, 440,000 are homeowners and 410,000 are renters; 42 percent of elderly black homeowners are shelter poor, compared with 61 percent of renters. Shelter-poor homeowners are about equally divided between households with 1 person and 2 or more persons, while nearly three quarters of shelter-poor renter households have just 1 person (Figs. 5.5 and 5.7). This is largely a reflection of the fact that the majority of elderly homeowner households have 2 persons or more, while a majority of elderly renters constitute 1-person households. For both renters and homeowners, 1-person households are much more likely to be shelter poor than are 2+person households, but the differential by household size is much greater for homeowners (54 percent of 1-person vs. 35 percent of 2-plus-person households are shelter poor) than for renters (64 percent vs. 54 percent rates of shelter poverty).

Although single women are the modal type of shelter-poor elderly homeowners, slightly over half of the elderly black homeowner households that are shelter poor have 2 persons or more. This is because of the substantial number of black women homeowners who have people other than a spouse residing with them (Fig. 5.5); they have a 46 percent rate of shelter poverty, compared with 31 percent for married-couple homeowners, and 57 percent for single women homeowners.

There are 515,000 elderly black homeowners paying 25 percent or more of their incomes for shelter, compared with 437,000 shelter poor. The difference is entirely among households with incomes of $10,000 or more. Although the two approaches show identical figures below $10,000, shelter poverty is more concentrated at the lowest incomes. Below $5,000 there are about 20,000 more households shelter poor than paying 25+ percent of income; 97 percent are shelter poor vs. 90 percent paying 25 percent or more. In the $5,000 to $9,999 income class, there are about 20,000 fewer shelter poor; 53 percent are shelter poor vs. 60 percent paying 25 percent or more of their incomes. On both the shelter-poverty and traditional standards, 1-person households make up 70 percent of those below $5,000 who are paying more than they can afford, while for all higher income classes households of 2 persons or more are the overwhelming majority. The median income of shelter-poor elderly black homeowners is $4,200, compared with $5,500 for those paying 25 percent or more.

Among elderly black renters who are shelter poor, single women are an absolute majority (almost 206,000). Their 66 percent rate of shelter poverty is the highest of any household type of any race. It compares with rates of 59 percent for single men and for 2-plus-person other-female householders, and 52 percent for married-couple elderly black renters. The number of shelter-poor households of each of these three latter types is about 60,000-80,000 (Fig. 5.7). The number of elderly black renters paying 25 percent or more of income exceeds only very slightly the number shelter poor, corresponding to the even greater concentration of renters than homeowners at the lowest incomes. As with homeowners, the two concepts yield identical numbers below $10,000, with the number shelter poor greater by about 30,000 below $5,000, and the difference reversed in the $5,000 to $9,999 income class (Fig. 5.8). The median income of shelter-poor elderly black renters is $3,200, compared with $3,800 for those paying 25 percent or more. For elderly single women renters who are shelter poor the median income is less than $2,800, while for married couples it is a little over $5,900.

Hispanic Elderly

Nearly 270,000 Hispanic elderly households are shelter poor, compared with about 310,000 paying 25 percent or more of their incomes for shelter. For each household type, the number paying more than they can afford for housing on the traditional standard is greater than the number shelter poor, with the relative difference slightly greater than among blacks and slightly less than among all elderly, primarily because Hispanic elderly are not quite as concentrated at lower incomes as are black elderly (Fig. 5.9).

Of elderly Hispanics who are shelter poor, 150,000 have incomes below $5,000 (57 percent, compared with 68 percent of black elderly), and 110,000 between $5,000 and $9,999 (40 percent, vs. 29 percent of blacks). That is, shelter poverty among Hispanic elderly is virtually all concentrated among those with incomes of under $10,000, as it is with black elderly, but is a little less concentrated at the very lowest incomes. Of those Hispanic elderly paying 25 percent or more of their incomes for shelter, we see the now-familiar pattern: less severe than shelter poverty for households below $5,000, more severe for all higher income classes, with the major difference occurring at incomes of $10,000 or more, where few elderly households are shelter poor even if they are paying considerably more than the traditional standard would suggest they can afford.

Of the Hispanic elderly who are shelter poor, 110,000 are homeowners and 160,000 are renters, as opposed to the black tenure distribution in which the majority of shelter poor are homeowners. About 36 percent of elderly Hispanic homeowners are shelter poor (cf. 41 percent of black); 52 percent of elderly Hispanic renters are shelter poor (61 percent of black renters). Among shelter-poor elderly Hispanic homeowners 40 percent are married couples and 40 percent are single women (Fig. 5.11). Nonetheless, the 52 percent incidence of shelter poverty among single women homeowners is far higher than the 30-33 percent rates of nearly all other household types. Unlike elderly blacks, for which there are a considerable number of black women homeowners who have people other than a spouse residing with them, shelter poverty among elderly Hispanic homeowners is not substantial among households other than married couples and single women.

For elderly Hispanic homeowners, the pattern again is that the shelter poverty and conventional approaches differ primarily by income distribution, with shelter poverty more concentrated at the lowest incomes. Below $5,000 there are more households shelter poor than paying 25+ percent of income; 95 percent are shelter poor vs. 85 percent paying 25 percent or more. In the $5,000 to $9,999 income class, there are only slightly fewer shelter poor; 55 percent are shelter poor vs. 57 percent paying 25 percent or more of their incomes. On both the shelter poverty and traditional standards, 1-person households make up 76-78 percent of those below $5,000 who are paying more than they can afford (compared with 70 percent for black homeowners), while for all higher income classes households of 2 persons or more are the overwhelming majority. The median income of shelter-poor elderly Hispanic homeowners is $4,500, compared with $6,000 for those paying 25 percent or more, these figures being $300 and $500 greater respectively than for elderly black homeowners paying more than they can afford. However, the median income of shelter-poor Hispanic elderly single women is only $2,700, $200 less than that of single black women.

Among the 160,000 elderly Hispanic renters who are shelter poor, 47 percent are single women (compared with 40 percent of shelter-poor homeowners). Their 61 percent rate of shelter poverty is the highest of all Hispanic elderly, but somewhat less than the 66 percent rate of black single women renters. It is considerably higher, though, than the rates of 53 percent for 2+person other female householder, 48 percent for single men and, and 42 percent for married couple elderly black renters. The number of shelter-poor households of each of these three latter types is about 20,000-30,000 (Fig. 5.13).

The number of elderly Hispanic renters paying 25 percent or more of income exceeds the number shelter poor by about 20 percent, a bigger differential than among black renters, corresponding to the slightly higher incomes of elderly Hispanic renters. And as has been true for all groups of elderly, the two concepts yield similar numbers below $10,000, with the number shelter poor greater below $5,000 and the difference reversed in the $5,000 to $9,999 income class (Fig. 5.14).

The median income of shelter-poor elderly Hispanic renters is about $4,300, compared with $3,200 for black renters. The median income of those elderly Hispanic renters paying 25 percent or more is $5,700. For elderly, single women renters who are shelter poor the median income is about $3,100, only a little greater than the $2,800 of single elderly black women. For shelter-poor elderly Hispanic married couples, it is $7,100, compared with $5,900 for blacks. That is, among both renters and homeowners, elderly black and Hispanic single women differ very little from each other in the depth of their affordability problem. Among elderly married couples, on the other hand, Hispanics are rather better off, on average, than blacks, among both renters and homeowners.

FIG. 5.1. ELDERLY HH BY RACE/ETHNICITY
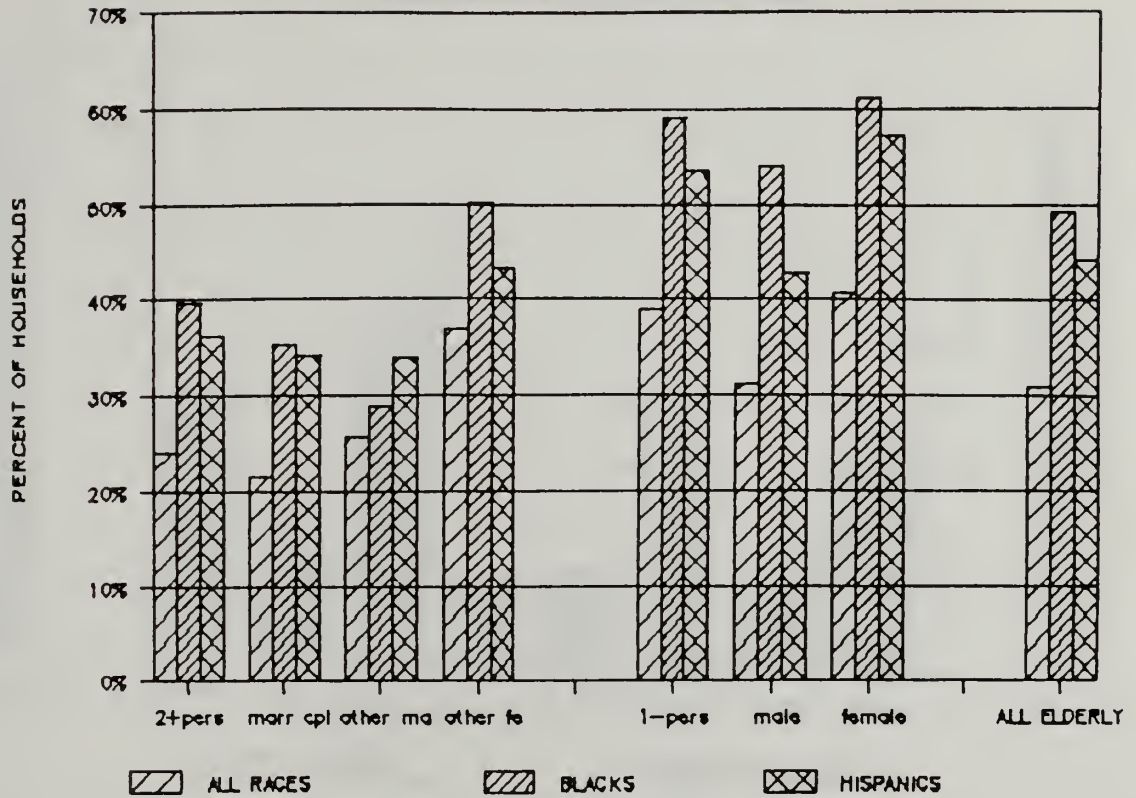
% SHELTER POOR BY HH TYPE, U.S., 1985

ALL RACES   BLACKS   HISPANICS

FIG. 5.2. ELDERLY HH BY RACE/ETHNICITY

% SHELTER POOR BY INCOME, U.S., 1985
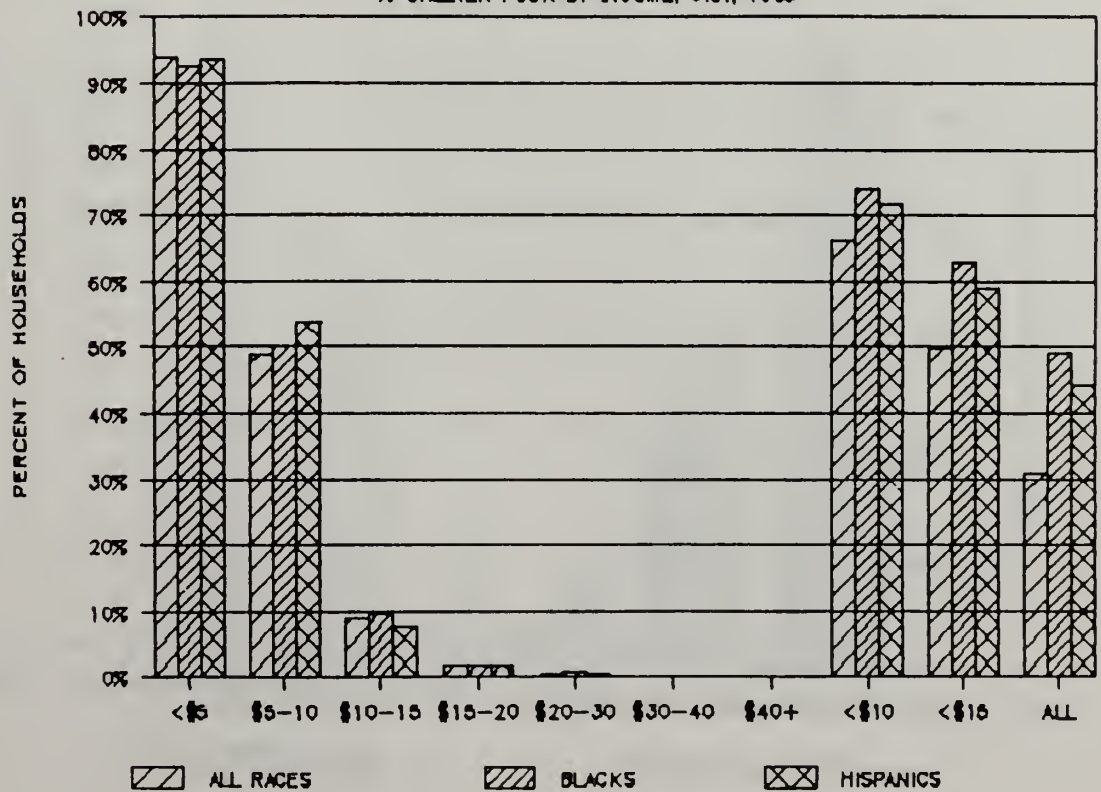
ALL RACES   BLACKS   HISPANICS

FIG. 5.3. ELDERLY BLACK HOUSEHOLDS
SHELTER POOR BY HH TYPE, U.S., 1985

NUMBER OF HOUSEHOLDS (millions)

2+pers   marr cpl   other ma   other fe   1-pers   male   female   ALL ELDERLY

▨ 25+% OF INCOME   ▩ SHELTER POOR

FIG. 5.4. ELDERLY BLACK HOUSEHOLDS
SHELTER POOR BY INCOME, U.S., 1985

NUMBER OF HOUSEHOLDS (thousands)

Under $5k $5k–$10k $10k–$15k $15k–$20k $20k–$30k $30k–$40k $40k+

▨ 25+% OF INCOME   ▩ SHELTER POOR

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FIG. 5.5. ELDERLY BLACK HOMEOWNERS

SHELTER POOR BY HH TYPE, U.S., 1985

Legend: 25+% OF INCOME / SHELTER POOR

FIG. 5.6. ELDERLY BLACK HOMEOWNERS

SHELTER POOR BY INCOME, U.S., 1985

Legend: 25+% OF INCOME / SHELTER POOR

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FIG. 5.7. ELDERLY BLACK RENTERS

SHELTER POOR BY HH TYPE, U.S., 1985

NUMBER OF HOUSEHOLDS (thousands)

2+pers   marr cpl other ma other fe   1-pers   male   female   ALL ELDERLY

▨ 25+% OF INCOME   ▩ SHELTER POOR

FIG. 5.8. ELDERLY BLACK RENTERS

SHELTER POOR BY INCOME, U.S., 1985

NUMBER OF HOUSEHOLDS (thousands)

Under $5k $5k-$10k $10k-$15k $15k-$20k $20k-$30k $30k-$40k $40k+

▨ 25+% OF INCOME   ▩ SHELTER POOR

FIG. 5.9. ELDERLY HISPANIC HOUSEHOLDS

SHELTER POOR BY HH TYPE, U.S., 1985

2+pers   marr cpl other ma other fe   1—pers   male   female   ALL ELDERLY

▨ 25+% OF INCOME   ▨ SHELTER POOR

FIG. 5.10. ELDERLY HISPANIC HOUSEHOLDS

SHELTER POOR BY INCOME, U.S., 1985

Under $5k $5k—$10k $10k—$15k $15k—$20k $20k—$30k $30k—$40k $40k+

▨ 25+% OF INCOME   ▨ SHELTER POOR

71
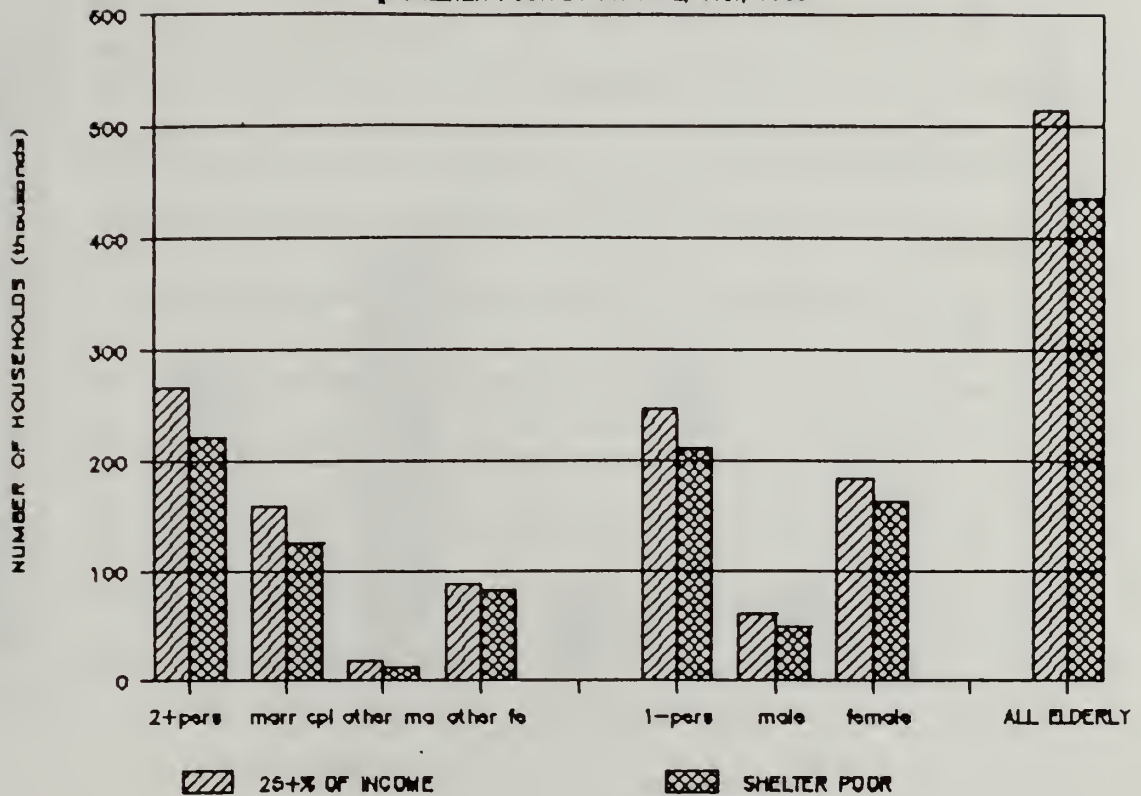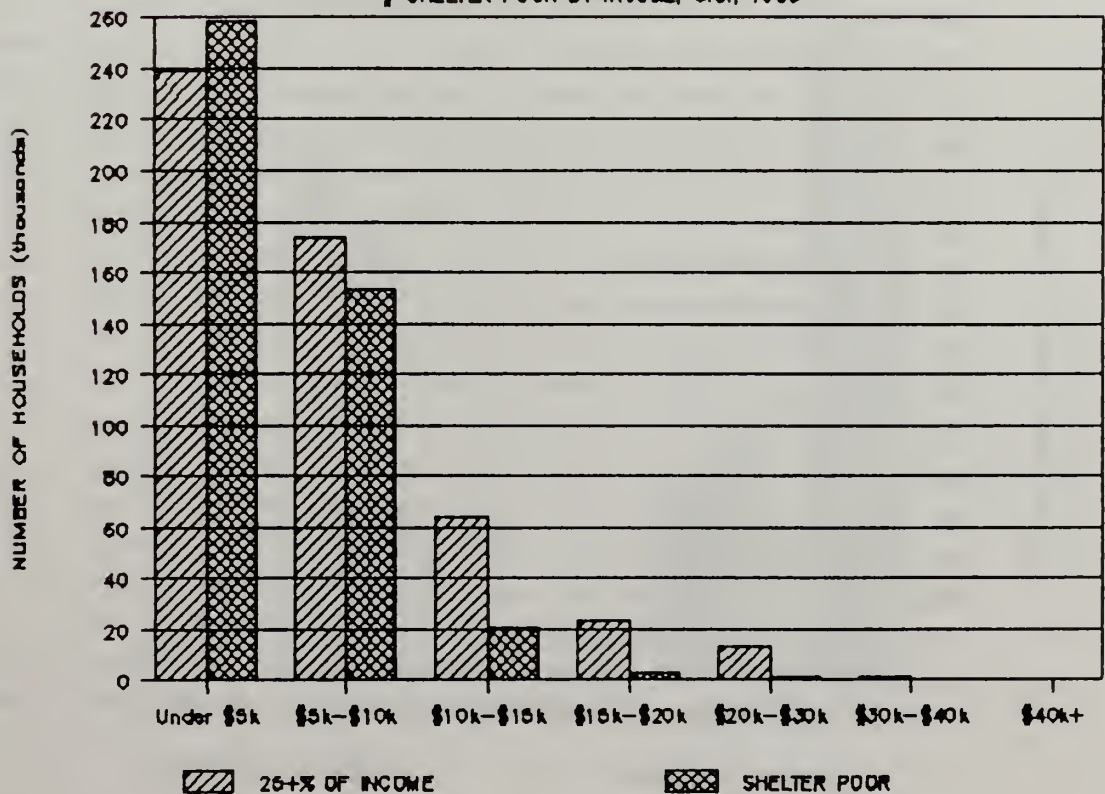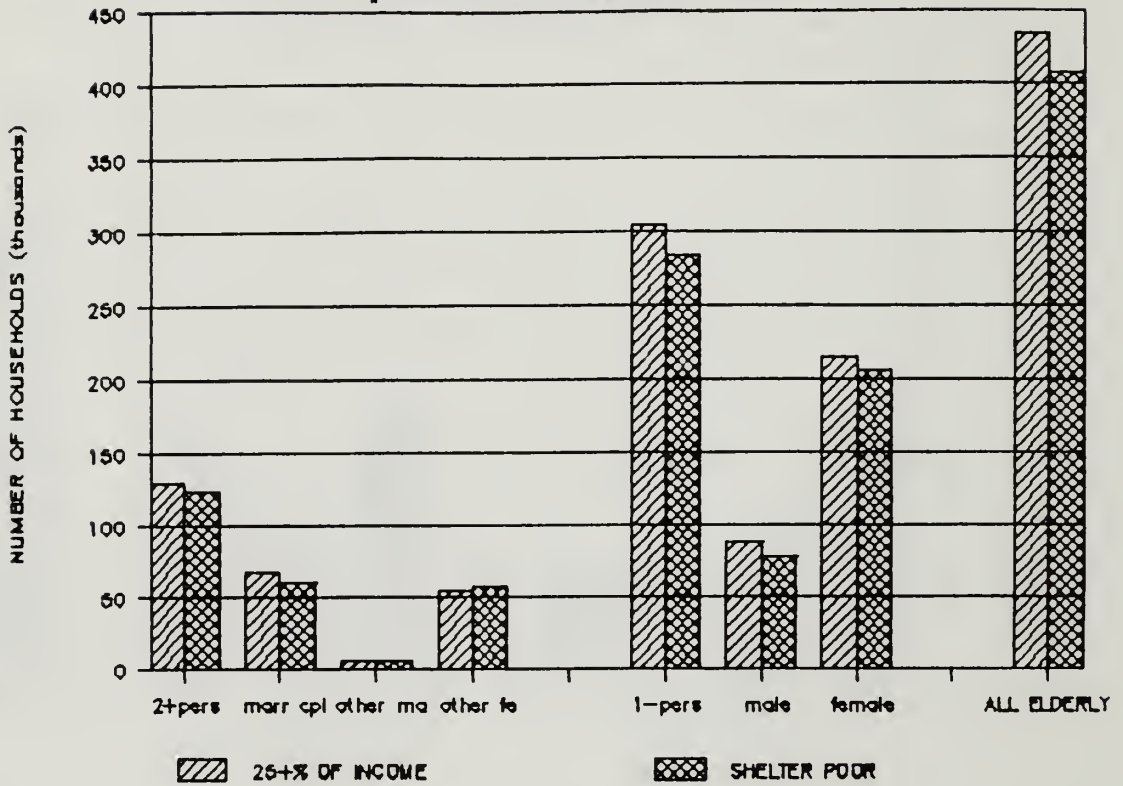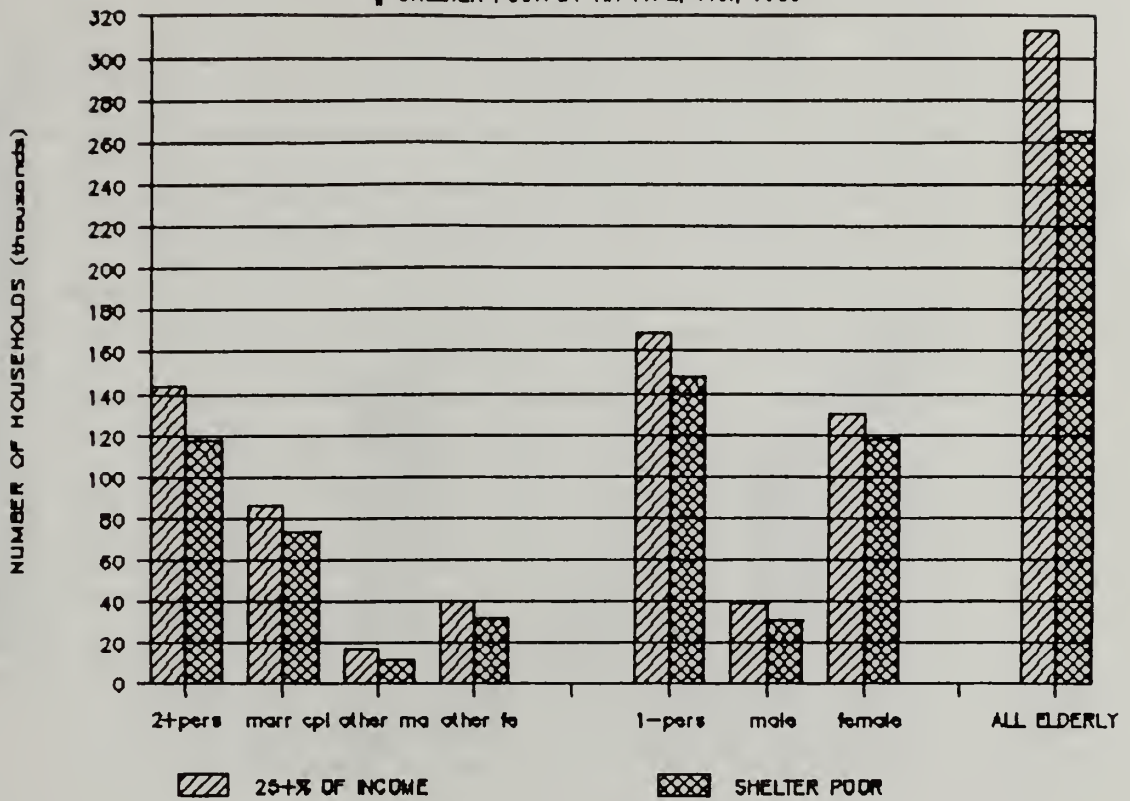
FIG. 5.11. ELDERLY HISPANIC HOMEOWNERS

SHELTER POOR BY HH TYPE, U.S., 1985

Legend:
- 25+% OF INCOME
- SHELTER POOR
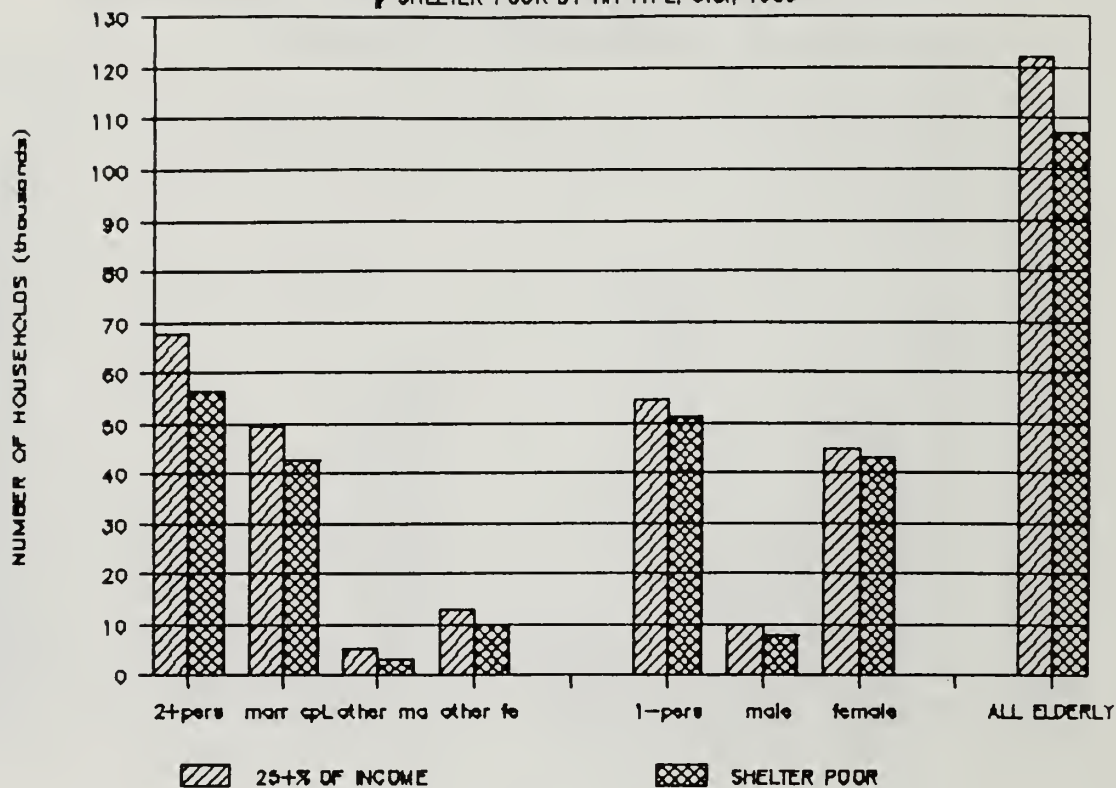
FIG. 5.12. ELDERLY HISPANIC HOMEOWNERS

SHELTER POOR BY INCOME, U.S., 1985
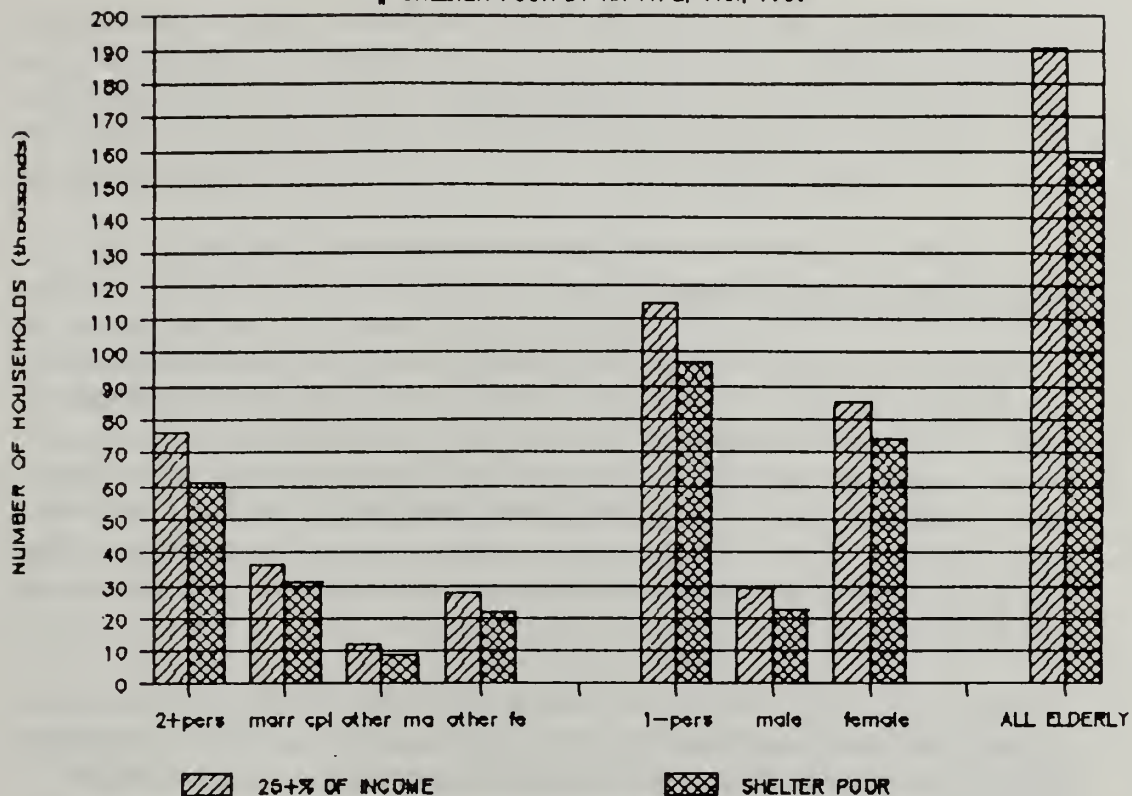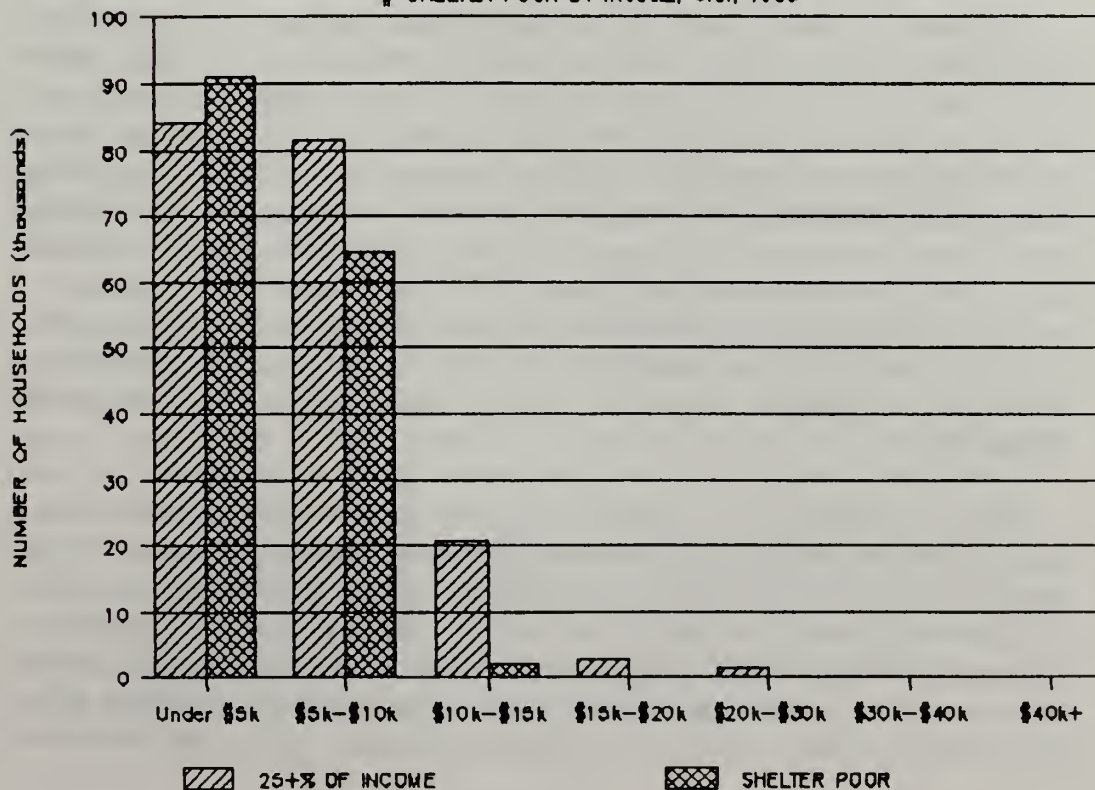

Legend:
- 25+% OF INCOME
- SHELTER POOR
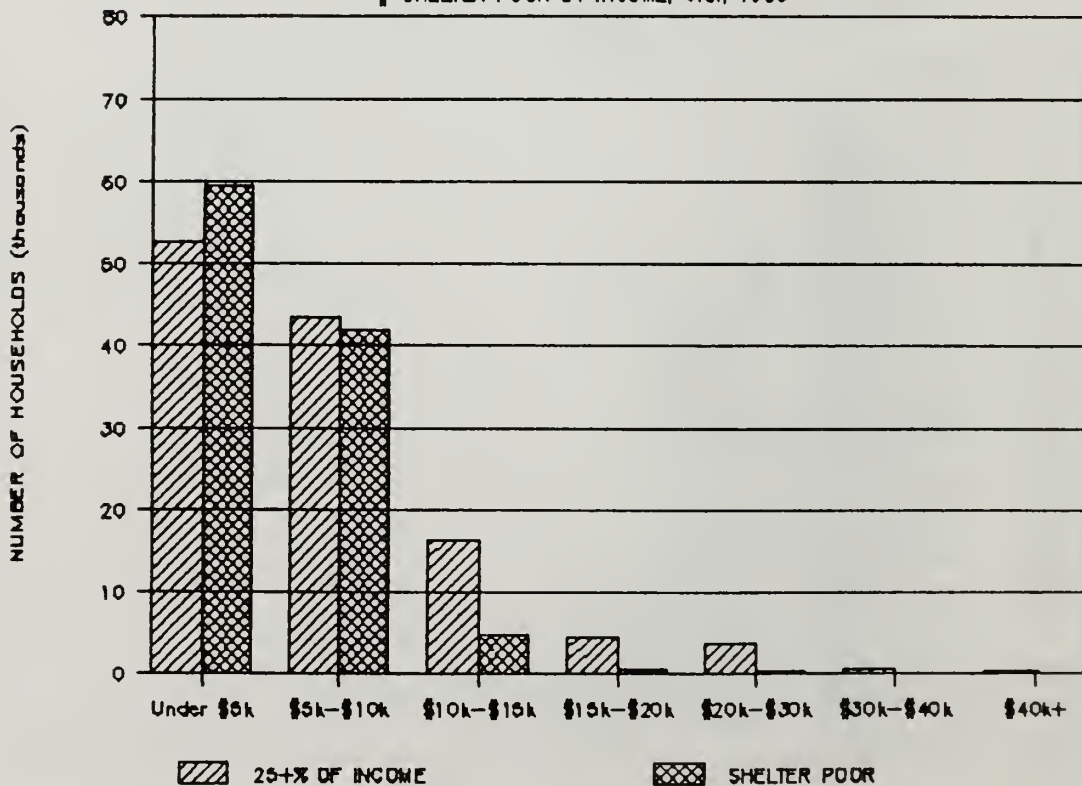
FIG. 5.13. ELDERLY HISPANIC RENTERS

FIG. 5.14. ELDERLY HISPANIC RENTERS

CHAPTER 6

SHELTER POVERTY AND PUBLIC POLICY

Income Supports and Housing Reform

The shelter-poverty concept of affordability reveals far more clearly than
the conventional standard the dual determinants of the housing affordability
problem, as both an income and a housing-cost problem. For example, the
shelter-poverty approach has revealed that half of the 6 million shelter-poor
elderly households have incomes so low that even if their housing costs were
to be reduced to zero they still would be unable to meet their nonshelter needs
at a minimum level of adequacy. They are not merely shelter poor; they are in
absolute poverty.

Furthermore, even if these low-income elders were provided with income
supports that would bring them up to, say, the federal poverty level, an elderly
single person, on average, would be able to afford little more than $130 a
month for housing and elderly couples would still be able to afford nothing
(see Table 3.4). And since their housing costs would, in general, continue to
make the first claim on their incomes, these people would still find themselves
unable to cover fully the cost of their nonshelter necessities.

However, an even higher level of general income support for shelter-poor
elderly, that is, sufficient to cover both nonshelter needs at an adequate level
plus shelter costs at some standardized level, would be highly inefficient
because of the lack of homogeneity of housing and the institutional structure of
the private housing market. That is, even if medical costs could be factored out
through appropriate policies in that area, and even if regional variations in the
cost of other basic nonshelter necessities could be taken into account, within a
given locality shelter-poor elderly would differ substantially in their income
needs simply because of the sizable variation in their actual housing costs. And
of course there is little capability to reduce their housing costs by relocating,
because of constraints of supply and the high costs (social as well as economic)
of moving.

What these issues suggest is that, just as no set of housing policies alone
can fully resolve the housing affordability problem, income policies alone
cannot resolve it either. Rather, an appropriate framework of support would
recognize that housing (as well as medical care) requires categorical policies --
policies that would include changes in the system of housing provision to bring
down costs, plus targeted assistance for those who would still be paying more
than they can afford even with such systemic changes.[1] Within this framework,

general income support would then be provided only to households unable to meet their nonshelter (and nonmedical) needs despite the categorical housing (and medical) assistance. The amount of such general income assistance would, of course, need to be sufficient to reach a reasonable threshold of adequacy for these other needs.

While the shelter-poverty approach reveals a need for deeper financial assistance than the conventional approach (and in many cases, for multi-faceted income and housing assistance for those elderly who are shelter poor), in one important respect the shelter-poverty approach is somewhat more consistent with the policy implications of the conventional standard. Both approaches reveal that housing assistance at present is quite inadequate to the need, even though they differ somewhat in their determination of the extent and distribution of need. The 1985 American Housing Survey reveals that 1.4 million elderly-renter households (27 percent) live in public or subsidized private housing;[2] virtually no elderly homeowners receive direct subsidies (the limited assistance is for new homebuyers), and few low and moderate elderly homeowners are in a position to offset costs with federal tax deductions.[3] Yet, as already demonstrated, 5.8 million elderly households are shelter poor, and 8.4 million are paying 25 percent or more of their income for shelter. Of the 1.4 million subsidized elderly, about half are shelter poor because the subsidies under the present formula are inadequate given their low incomes. So, of the 5.8 million shelter-poor elderly, about 5 million receive no housing assistance and the rest receive too little.

In recent years, total federal outlays for housing aid for all assisted households, not just elderly, have averaged about $14-15 billion a year (in constant 1987 dollars; Congressional Budget Office, 1988, p. 43),[4] a figure about equal to the aggregate shelter-poverty affordability gap. But the elderly are only about one fifth of all the shelter poor. Total federal housing expenditures would have to increase roughly fivefold, and be appropriately targeted, in order to provide the needed scope and depth of assistance to shelter-poor elderly and nonelderly.

Even though the prospects of overcoming shelter poverty through fundamental changes in the institutions of housing provision, adoption of a housing entitlement, and a massive increase in federal expenditures for housing may not seem likely in the near term, it is important to try to frame the debate about the problem and the requirements for its solution. In this regard, it is useful to identify efforts already under way as well as reforms that reasonably could be undertaken to move in the appropriate direction. The following subsections highlight such policy initiatives, focusing particularly on elderly shelter poverty, and concluding with a summary of the comprehensive program developed by the Institute for Policy Studies Working Group on Housing (1987; 1989).

As mentioned in Chapter 3, elderly households receiving housing subsidies (under public housing, section 8, section 202, and a number of other, smaller programs) are required to pay 30 percent of their adjusted income toward housing, where adjusted income is gross income reduced by a standard deduction of $400, and further reduced by medical expenses in excess of three percent of gross income.[5] Apart from the potential effects of the medical deduction, under this formula virtually all subsidized single elderly with incomes under about $5,000 and elderly married couples with incomes under about $10,000 in 1987 were paying more than they could afford on the shelter-poverty scale (Figures 6.1 and 6.2, curves denoted "PHS8" and "SP"). Households of higher income, though, comprising about a quarter of subsidized elderly households, could have afforded to pay somewhat more. The shelter-poverty standard thus suggests that, apart from the insufficiency of overall assistance for subsidized housing, the present formula fails to allocate available funds most appropriately to need.

There are several possible ways of changing the subsidy formula to make tenants' payments correspond more closely to the shelter-poverty concept. Use of the shelter-poverty scale itself as a subsidy formula would have households below the zero threshold of affordability paying nothing out of pocket for shelter, but would reduce housing assistance by one dollar for every dollar of disposable income above the zero threshold of affordability. This would, however, prevent subsidized households from ever raising their nonshelter consumption above the minimum standard.

One alternative might therefore be to reduce housing assistance by less than one dollar for every dollar of disposable income above the zero threshold; Figures 6.1 and 6.2 include a version of this approach (labelled "Semi") based upon a 50 percent offset. On the other hand, a formula that does not fully offset the effect of higher incomes would mean that scarce subsidy dollars would not be targeted just to the shelter poor, but would in part be used to reduce the rents of some nonshelter poor, middle-income elders who are living in subsidized housing. In light of the paucity of housing assistance, and with most shelter-poor elderly receiving no assistance whatsoever, such an approach would only exacerbate horizontal inequity.

An even simpler alternative to the full shelter-poverty scale would be an adaptation of the present formula, consisting of substantially raising the standard deduction from gross income while increasing the percentage of adjusted income to be paid. A modest version allowing deductions of $1,200 per person and then requiring payment of 35 percent of adjusted income (denoted "12/35%" in Figures 6.1 and 6.2) would reduce rents for subsidized elderly who are below the zero threshold of affordability by about $15-$50 a

month, but still have them paying rents somewhat above shelter-poverty affordability.

A more dramatic variation of the latter approach would increase the standard deduction to $2,400 per person and then require payment of 45 percent of adjusted income (denoted "24/45%"). The psychological impact of the higher percentage would be more than offset, it is hoped, by the economic benefit of the very large deductions, in that rents of the poorest elders in subsidized housing would be reduced by about $40 to $100 a month. For example, a single elder with income of $3,000, who is currently paying $65 a month (26% of income) would have her rent reduced to $23 (9%), a sizable benefit even if not all the way down to zero, which is what she actually can afford on the shelter-poverty standard. At the very upper end, this formula would result in very modest rent increases; for an elderly couple with income of $15,000, their present rent of $365 a month (29% of income) would increase to $383 (31%).

Although the subsidy formula just outlined does not quite achieve the equity of the full shelter-poverty scale, it would be far more equitable than the "semi" shelter poverty model described above. It thus might be an appropriate interim approach, requiring only modest legislative and regulatory changes of language for implementation, rather than a whole new schema. On the other hand, a formula based on a standard deduction of $2,400 and payments of 45 percent of adjusted income represents such a quantitative departure from the present formula that politically the shelter-poverty formula might be at least as likely to be accepted, and of course would be the most equitable solution. Political acceptability of any major change in subsidy formulas might be further enhanced by including a "hold harmless" provision for middle-income elderly currently in subsidized housing so that they would not be subjected to large and sudden rent increases.

Assisting Elderly in Private Rental Housing

Although many communities have supported the expansion of subsidized housing, especially for the elderly, most low-income elderly renters do not receive subsidies and are shelter poor, as we have seen. They are thus in need of measures that can at least limit -- if not reduce -- the cost of their housing. Some such measures can deal directly with the cost of housing. Others can have the effect of reducing displacement of low and moderate-income elders, as displacement usually results in both the loss of relatively lower-cost units and the displacees paying more for whatever housing they eventually obtain. Still other measures can maintain or enhance affordability by permanently removing some existing private rental housing from the speculative market.

a) Rent, Eviction, and Conversion Controls

First of all, it is time to recognize rent, eviction, and conversion controls as an integral and permanent feature of local policy and regulation, analogous to zoning and housing codes. It is also important to recognize that elderly renters have often been in the forefront of the demands for such controls and have been among the principal beneficiaries. There is no reason why a competent local agency cannot administer such regulations efficiently and fairly. The principal difficulties of rent and eviction controls stem not from their existence, but from uncertainty about their duration and inadequacies in their administration. Recognizing that rent and eviction controls are not just stop-gap measures, nor the be-all of local policy for rental housing, localities should have the power to institutionalize a set of precise and equitable controls, and then direct their energies to other housing policies which can gradually transfer private rental housing to other forms of ownership. (See Gilderbloom and Appelbaum, 1988, for arguments and evidence on the impacts of rent control and for new types of policies for rental housing.)

b) Arson Protection

Elderly renters are particularly vulnerable to the vicious crime of arson. Their vulnerability stems not only from the greater difficulty some elders have in escaping from a burning building, but also because some localities accord the elderly greater protection against eviction for condo conversion and luxury rehabs, leading some owners to utilize arson as a means to vacate buildings as well as generate cash. State law should require that insurance proceeds be used to rebuild for existing residents, with the municipality as additional loss payee to ensure proper use of insurance proceeds. Fire should not be an excuse for removal of a building from rent control. In addition, landlords should be required to have sufficient coverage to pay relocation expenses and housing costs in excess of pre-fire costs for a period of one year for displaced tenants. These measures, along with much greater commitment to criminal investigation, can help save both affordable housing and human lives, especially the lives of the elderly.

c) Conversion to Nonspeculative Ownership

Private rental housing is increasingly being recognized as an anachronism, at least by those landlords who are converting to condos, abandoning their buildings or burning them for the insurance money. To the extent that federal, state, and local policies make conversion and arson no longer available or profitable, and to the extent that tenants achieve greater legal protection and municipal enforcement, landlords who wish to bail out should be able to do so in ways that are not harmful to tenants. Therefore, mechanisms must be established -- or existing mechanisms more fully utilized -- so that private rental housing can be converted to forms of social or nonspeculative ownership

-- for example, nonprofit ownership by community trusts, charitable organizations, labor unions, or local public housing authorities; resident ownership through limited-equity and nonequity coops and mutual housing associations; and even joint ownership of resale-restricted, below-market 1- to 4-family homes or rooming houses by, for example, groups of single elderly people or aged-mixed elderly and nonelderly singles (Neighborhood Reinvestment Corporation, 1987; Baker, 1989; Stone, 1989; Sultemeier, 1989).

Elderly households in unsubsidized rental housing would be major beneficiaries of such conversions, in terms of enhanced affordability as well as security of tenure. Indeed, it would be most appropriate to couple federal and state rental assistance to plans for conversion of assisted buildings.

d) <u>Protective Measures for Expiring-Use Buildings</u>

Many privately owned but federally subsidized housing developments are coming to the end of the period under which the owners were required to retain the low- and moderate-income use (Clay, 1987; Achtenberg, 1989). Elders are among the population most vulnerable to displacement if the use restrictions on such buildings are permitted to expire without intervention.

Some emergency national legislation has slowed the loss of this housing, and in some places resident and community groups have been able to obtain extensions and even negotiate buyouts of existing owners. This is an important and rapidly evolving issue. Even though many of the lower-income elders in such developments are shelter poor, as mentioned above, because the subsidies are not deep enough, loss of them would make their situation far worse.

e) <u>Shared Housing and Accessory Apartments</u>

The above measures are aimed primarily at assisting older renters to "age in place." There are also ways of increasing the stock of moderately priced rental housing available to elders by adapting some existing, private owner-occupied housing that has underutilized space and whose owners would welcome the additional income. While generally discussed as a vehicle for assisting "house rich, cash poor" elderly homeowners, the legal and extra-legal creation of accessory apartments, letting of rooms and taking in boarders by middle-aged and elderly "empty nesters" also may have potential for helping some shelter-poor elderly renters. Where aspects of their unit, building, or neighborhood make aging in place less than optimal, some older renters may find more congenial a small "in-law" apartment or set of rooms with kitchen privileges.

Such processes clearly have been occurring informally in many locales. What is striking, though, is that the issue of shared housing in recent years has generated considerable policy discussion. (See, for example, Borchelt, 1988;

Goetze, no date; Parker, et al., 1989). There are numerous creative ideas and actions, with prominent organizations such as AARP and the Neighborhood Reinvestment Corporation exercising leadership to encourage local governments and advocates.

At the same time it must be noted that the creation of accessory apartments is costly, even when it involves virtually no external changes to an existing house. The lowest-cost examples of informal, extralegal conversions ran about $4,000 in the mid-1980s (Goetze, no date, 13), while more extensive and legal conversions ran as much as $35,000 in high-cost areas in the late 1980s (Borchelt, 59). With conventional financing, few such units would be affordable to shelter-poor elderly renters. This means that either some level of rental assistance or, more likely, capital assistance to the owners would still be required to serve the most needy.

f) Linkage and Inclusionary Zoning

One way in which some localities with high development pressures have generated some funds for assisted-housing production has been to require commercial developers to make payments into a special housing trust fund or actually build some low and moderate-income housing at other sites (Keating, 1989).

Another version of this approach, known as "inclusionary zoning," requires developers of market-rate housing to include some below-market units in their developments. A version of this model of particular relevance to shelter-poor elders would apply the concept to the development of continuing-care retirement communities, which generally are affordable only by high-income elders. While apparently there are not yet any municipalities or states that require such inclusion by statute, in at least several Massachusetts localities advocates have been attempting to use local approval procedures as leverage to encourage developers of proposed continuing-care communities to include some units for lower-income elders.

Assisting Shelter-Poor Elderly Homeowners

Three quarters of elderly householders are homeowners, yet conventional homeownership is not without problems for the elderly. The equity they have accumulated has generally been illiquid, and unavailable to help pay for housing and nonshelter necessities unless the home is sold and the homeowners move. The risks of property tax foreclosure and (for the 17 percent of elder homeowners who still have mortgages) mortgage foreclosure undermine the security that this tenure seems to offer. The popular homeowner tax benefits are highly regressive, flowing almost entirely to nonelderly homeowners with incomes of over $30,000 and large mortgages. Older homes can be costly and

complicated to manage, maintain, insure, and heat. And, sadly, some homeowners may place the enhancement of property values above the preservation and enhancement of community, developing resentment toward tenants and others they regard of lower social or economic status.

There are a number of feasible strategies to increase security of tenure and housing affordability for shelter-poor elderly homeowners, through foreclosure protection, equity conversion, tax relief, rehab grants, and shared housing.

a) Mortgage Foreclosure Protection

Although only one sixth of elderly homeowners still have mortgages on their homes, it is particularly tragic when such a homeowner faces loss of her home because of her inability to continue making mortgage payments. While advocacy groups and public officials do encourage private lending institutions to exercise forbearance in foreclosing on unpaid mortgages on the homes of low-income elderly homeowners, a public program to provide permanent mortgage relief may be necessary for those who are severely shelter poor. For qualifying low-income elderly homeowners who have not been able to resume mortgage payments even following the forbearance of the lender, public funds should be used to provide financial assistance. The assistance should bring the homeowner's outlays down to the shelter-poverty affordability level, in return for the agreement that whenever the owner wishes to sell, or upon his or her death, a nonprofit entity has the right to buy the home at a price yielding no more than a limited-equity return to the seller or the seller's estate.

For low-income elderly facing the loss to foreclosure of both their shelter as well as their investment in the property, such a program could provide security of tenure and affordability, while also making it possible to transfer some housing out of the speculative market and make it more affordable for subsequent generations. At the same time, though, it should be recognized that where a broader program of equity conversion is available, an elderly homeowner with mortgage distress might have the alternative to utilize a portion of their equity to retire the outstanding debt.

b) Rehab Grants

Over the past decade and a half many municipalities have provided rebates, partial grants, and low-interest loans to homeowners for basic repairs and improvements. Many of these programs have had great impact, with the elderly benefiting particularly from both financial assistance and professional guidance in having work carried out. Nonetheless, several modifications may help the affordability situations of low-income elderly owners; they may also help maintain long-term affordability of some of the existing owner-occupied stock. Most programs have required owners to pay a portion of the cost of repairs out of personal funds, yet some owners cannot afford necessary repairs and energy

improvements at all. They should be able to receive outright grants for these costs, but with the imposition of a lien that requires repayment of the grant if and when the owner or owner's heirs sell and with the right of first refusal by a nonprofit entity to buy at such a time. Indeed, many municipalities use Community Development Block Grant (CDBG) funds for homeowner partial grants or rebates with liens to permit recovery and recycling of the funds when the property is sold.

The proposal presented here just goes farther in order to address the more serious barrier to homeowner repairs while serving long-term objectives of removing housing from the speculative market in the future.

c) <u>Equity Conversion</u>

More than 20 years ago Chen first proposed a way in which an elderly homeowner could generate income by liquidating at least a portion of the equity in their home without have to sell and move. Only over the last 10 years, though, has equity conversion become a subject of widespread discussion and exploration, and even now its implementation remains limited (Scholen and Chen, 1980; Edmonds, 1984; AARP Home Equity Center, 1988). Some models involve loans, while others are sale-and-leaseback arrangements: They offer the elderly homeowner either an income stream, a lump-sum payment, a line of credit, relief from all housing costs, relief from property taxes, rehab and maintenance services, or some combination. Some models provide benefits only for a limited period, while others are for life or until the owner moves out. Some that involve private, profit-motivated lenders or equity investors are only offered to elderly in neighborhoods that are highly desirable or experiencing property appreciation. Some are highly risky to the elderly because of their limited duration or low return. And virtually all the models, even those that provide substantial benefit and protection for the elderly homeowner, tend to recover the costs by initial or eventual sale in the speculative market.

It is possible, though, to adapt some of the most attractive of the equity-conversion models to benefit shelter-poor elderly homeowners while assuring that their homes ultimately become part of the nonspeculative stock of housing for future residents unable to afford homes in the private market. One possible approach would be for a municipality to assist low-income elderly by using municipal borrowing, CDBG, or other public funds to make the annuity payments. A mortgage lien on the property could provide that a nonprofit community development corporation (CDC) or land trust has the right of first refusal to buy from the owner's estate.

Another version would be for a no-profit entity to purchase the home of an elderly low-income homeowner, offering in return a life estate and financial compensation, in the form of an annuity. In this way, the resident would be assured of life tenure at a truly affordable cost. The nonprofit could also be

responsible for maintenance services. In Buffalo, New York, a program of this
sor, using CDBG funds was in operation for several years, until the Reagan
Administration refused to continue providing funding. As it turned out, to get
significant participation it was necessary to offer participants the option of a
lump-sum settlement rather than an annuity, raising a number of issues to be
resolved if the model were to be more broadly applied (Weinrobe, 1985). One
difficulty with the Buffalo program, in terms of the perspective presented here,
is that when the owner dies or vacates the home it is sold on the private
market to recycle the funds, rather being made available at a below-market
price for permanent nonspeculative ownership.

d) Property Tax Relief

Property tax relief is also one of the major vehicles available for reducing
housing costs of elderly homeowners. Most states already give local assessors
the legal authority to exempt a portion of the assessed valuation of a home
from taxation in the case of financial hardship. Of course there is then a loss of
revenue, so that state appropriations generally are necessary to make up for the
lost revenue. Another approach, though, which can be an alternative or
supplement to partial tax exemption, is property-tax deferral by elderly
homeowners. This is a form of equity conversion, in which a lien is placed on
the property, to be repaid with interest when the property eventually is sold
(voluntarily while the owner is still alive, or upon death of the owner; Heiser,
1980).

e) Shared Housing and Accessory Apartments

As already discussed under assistance for elderly renters, there are a variety
of formal and informal approaches under way, as well as proposed, that enable
elderly homeowners to generate some income from the homes by making some
of the space available to occupancy by others. The sources cited above describe
the various concepts and the issues for the homeowners and for policymakers.

A Progressive Federal Housing Policy

Nearly two decades ago progressive housing activists began suggesting
innovative housing policies for replacing credit-dependent financing and
speculative ownership of housing, while increasing housing production and
affordability. A variety of local, state, and national efforts have been taking
place -- mostly involving nonprofit organizations, but including some state and
local government agencies. At the national level, one of the major steps has
been taken by the Institute for Policy Studies' Working Group on Housing
(1987, 1989), which has formulated a comprehensive national housing policy; it
was introduced into Congress in 1988 by Congressman Ronald Dellums of
California, with the support of an impressive range of national coalitions and

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grassroots organizations, under the rubric of "The Right to Housing: A Blueprint for Housing the Nation." Shelter-poor elderly clearly would be among the major beneficiaries of this comprehensive bill.

a) Social and Nonspeculative Housing

Central to this new federal housing commitment would be, first, the strengthening and expansion of the emerging sector of "socially owned" and "nonspeculative" housing, which includes not only public and nonprofit housing, but other forms mentioned above, including mutual housing associations, limited-equity cooperatives, and limited-equity individual homeownership. This sector of housing would be expanded not only through new construction, but also (as indicated in the preceding sections) through preservation of existing subsidized housing, conversion of portions of the existing private rental stock to mutual or limited-equity resident ownership or to nonprofit or public ownership, and conversion of some owner-occupied housing through progressive methods of foreclosure protection and equity-conversion for low- and moderate-income and elderly homeowners.

b) Capital Grant Financing

The second major policy element involves financing the acquisition, rehabilitation, and construction of housing for the social sector through direct capital grants, rather than through mortgage or bond financing. Capital grant financing means that there are no debt service costs to be borne by residents and/or taxpayers; most particularly there would be no interest costs. Of course a given level of public resources through capital grants initially would finance fewer units than if these resources were used to support borrowing; but it is not hard to demonstrate that over the long term capital grants would be more cost effective than borrowing, financing more per dollar per year after about 7 to 12 years because there would not be accumulating debt-service obligations.[6] A further, more systemic argument for capital grants is that they would begin to reduce the dependence of housing on the increasingly unstable financial system (see Stone, 1986, and Stone, 1990a).

c) Community-Based and Nonprofit Development and Management

The third major policy component would involve targeting of federal housing production funds exclusively for public housing and for community-based, nonprofit housing development and management, with resources provided not only for housing production and necessary operating subsidies to achieve shelter- poverty affordability, but also for technical assistance and capacity building. The legacy of Reagan Administration scandals at the Department of Housing and Urban Development, involving profit-motivated developers and their various agents and power brokers, has

greatly increased public and professional recognition that nonprofit housing development is the wisest and most cost-effective use of public resources (Dreier, 1989).

d) Tax, Regulatory, and Legal Reforms

In addition, since this sector of debt-free nonspeculative housing will necessarily grow only gradually, the comprehensive legislation also includes tax and regulatory policies to dampen speculative price increases in existing housing and land, and to steer lending sharply away from speculative investment (in existing residential and nonresidential assets) and toward production of housing (and job-producing industry and infrastructure). Finally, progress toward the realization of a right to housing would be accomplished through strengthening and expanding legally enforcable guarantees of affordability, habitability, security of tenure and nondiscrimination in housing.

e) Public Resources

Commitment to these goals would of course require a substantial increase in public dollars for housing, but more important, it would involve an evolution of our concept of housing and the nature of the housing market. Their achievement will actually result in a far more cost-effective use of those public dollars that are appropriated for housing, as it will require a more rational, integrated and comprehensive approach to meeting housing needs than the ad hoc and piecemeal approach we have had heretofore. There would, for example, be much more systematic and coordinated efforts to preserve existing affordable housing and reduce displacement of elderly and other vulnerable groups, thereby minimizing the need for costly new construction of subsidized housing. Indeed, emphasis on new construction has precluded a serious public commitment to halting and reversing the loss of affordable units that has been occurring for more than two decades.

The estimated annual costs of the Institute for Policy Studies program would be about $30 billion to $90 billion, depending primarily on the volume of new construction to be undertaken. The Dellums bill proposes the middle level -- about $55 billion a year. In addition, elements of the program, including support for community-based development and conversion of existing housing to resident-controlled and nonspeculative forms of ownership, have been incorporated into other Congressional bills with lower spending levels.

Conclusion

It is clear that the commitment required truly to solve the housing affordability problems of both the elderly and nonelderly ultimately must occur nationally. At the same time, though, the strategies suggested here plus many others initiated at the state, local, and community levels can begin to make an

impact while serving as models for large-scale reform. As already mentioned, many community-based organizations, a number of localities and a few states have been experimenting with some of the housing concepts described here, although in a necessarily limited way because an adequate federal policy framework and federal financial support are lacking. Elderly citizens themselves, their advocacy groups, and the community and political organizations in which elders are active have the potential to exert great leadership and creativity for a new understanding of the nature and causes of the housing affordability problem, and thus for new kinds of policy directions for effectively addressing shelter poverty.

FIG. 6.1. RENTS UNDER VARIOUS STANDARDS

SINGLE ELDERLY ADULT, U.S. 1987

RENT AS % OF GROSS INCOME
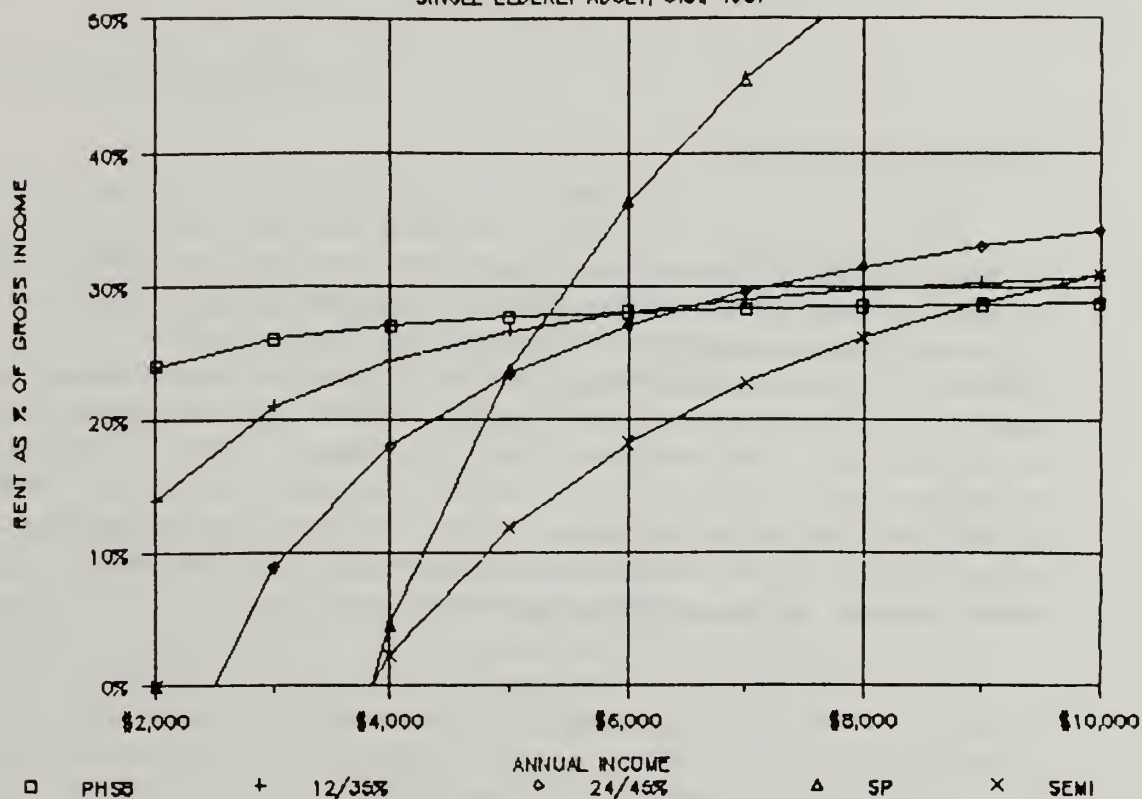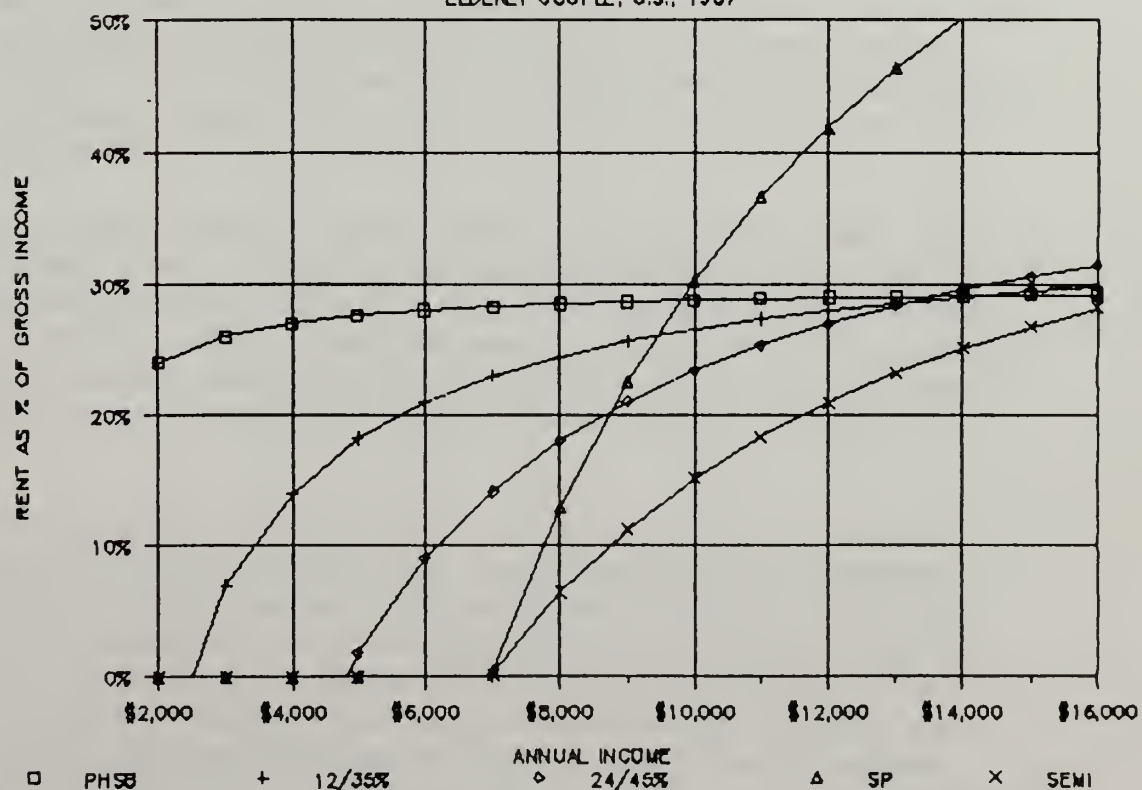
ANNUAL INCOME

□ PHS8   + 12/35%   ◇ 24/45%   △ SP   × SEMI

FIG. 6.2. RENTS UNDER VARIOUS STANDARDS

ELDERLY COUPLE, U.S., 1987

RENT AS % OF GROSS INCOME

ANNUAL INCOME

□ PHS8   + 12/35%   ◇ 24/45%   △ SP   × SEMI

NOTES TO CHAPTER 1

[1]Although federal housing programs have required participants to pay 30 percent of income for housing since 1981 (Congressional Budget Office, 1988, p. 7), this figure has always been controversial. In addition, certain adjustments to income are allowed, so that the percentage of gross income actually paid is somewhat less than 30 percent. Because of this complexity and the emphasis here on the alternative affordability standard, rather than include comparisons with both the 25-percent and 30-percent standards, only the former has been included here. In the policy section of the paper, where alternative subsidy formulas are discussed, the actual federal formula (30 percent of adjusted income) has been used (see Figures 6.1 and 6.2).

[1]To be sure, the official Poverty Level is based not on housing costs, but instead on a food standard (Orshansky, 1965; U.S. Department of Health, Education and Welfare, 1976). However, the Poverty Level suffers from a number of conceptual weaknesses as a measure of overall income adequacy (see text and Note 5 below), and its food-driven approach is, as we shall see, not the only reason why it is especially inappropriate as the starting point for constructing a housing affordability standard.

[2]The rationale for a percent-of-income standard, and the rationalization for raising the percentage from 25 to 30, has been that empirically the mean or median ratio of shelter expenditures to income has some particular magnitude (see, e.g., Feins and Lane, 1981; Congressional Budget Office, 1988, 9). However, this is really rather foolish and specious reasoning; there would be no less justification in using the empirically determined median or mean dollar expenditure for shelter as a standard, declaring that any household spending no more than this dollar amount does not have an affordability problem.

Nor is the problem with a ratio standard overcome by considering empirical expenditure ratios for different income classes: if the actual ratio for low-income households is considerably more than 25 percent to 30 percent, would this justify a higher standard of affordability, or instead reflect the dire deprivation of nonshelter necessities; if the actual ratio for high-income households is considerably less than 25-30 percent, would this justify a lower universal percentage, since they are not likely to be deprived of nonshelter necessities?

The point is not that the particular choice of ratio is arbitrary; rather, the use of any ratio or ratios, whether rationalized empirically or otherwise, is without logical foundation as a normative standard of affordability. Since a housing affordability standard is intended to measure whether a household has sufficient resources left to meet its nonshelter needs after paying for housing, logically such a standard should reflect explicitly the cost of nonshelter necessities.

[3]The most important additional factor is probably extraordinary medical expenses, especially for the elderly. Such expenditures are not routinely measured as part of income surveys and housing cost surveys and are not readily incorporated into a shelter affordability standard that can be used to determine the extent and distribution of the housing affordability problem. Exclusion of extraordinary medical costs means that households with such expenditures actually can afford rather less for shelter than the maximum amount specified by the general standard, thus resulting in some underestimate

of the extent of the housing affordability problem.

In applying the affordability standard to individual households, though, extraordinary medical expenses can be deducted from available income, as is done in determining tenant rent contributions in subsidized housing (24 CFR Ch. VIII and Ch. IX).

[4]See Expert Committee (1980) and Dubnoff and Strate (1986), and the sources cited therein, for discussion and comparison of various approaches based upon expert opinion, consumer expenditure data, and surveys of subjective notions of adequacy.

[5]There has evolved what might be called the "standard critique" of the Poverty Level. This critique does not reject the food-cost multiplier approach to specifying a minimum standard of adequacy, but rather tends to focus primarily on the food standard that has been utilized and on the particular choice of multiplier (revisions to which tend to raise the minimum threshold), and on the exclusion of noncash benefits (inclusion of which lowers the threshold for recipients of such benefits). Good summaries of the standard critique are in Levitan (1987, Chapter 1) and Caro (1988), with the latter deriving alternative thresholds based on the critique.

The critique presented herein goes beyond the standard critique in rejecting multiplier approaches in toto, arguing instead for a market basket approach which explicitly separates shelter from other items and utilizes a normative standard for nonshelter items that is otherwise consistent with the standard critique.

[6]For the history, see Expert Committee (1980). The major documents defining and developing the BLS Budgets are U.S. Department of Labor (1967, 1968a, 1968b, 1969).

[7] The figures for the maximum possible Social Security benefits, utilized in calculating federal income taxes for elderly households, have been obtained from U.S. Department of Health and Human Services (1987), Table L.2. Due to the so-called "notch" problem, the maximum possible benefits are received by workers who retired in 1982 at age 65; it is these figures that have been used in deriving the elderly shelter-poverty scales for 1985 and 1987 presented in this report.

All the computations of federal income taxes assume that households take the standard deduction. For 1-person households computations are for "single"

taxpayers. For elderly 2-person elderly households the calculations assume "married filing jointly." These tax assumptions are reasonable for deriving a standardized affordability scale for analytical purposes; in applying the shelter poverty concept to a particular household it is, of course, always possible to utilize its actual tax payments rather than the standardized amounts.

Nonfederal personal taxes have been determined by applying a national average ratio of nonfederal personal taxes to federal income taxes. The ratio has been assumed to be the same for all household sizes and incomes. For years since 1981, Current Population Survey data have been used to derive ratios of nonfederal to federal income taxes (U.S. Department of Commerce 1987, Tables 6 and 7; U.S. Department of Commerce 1988, Tables 6 and 7). The figures through 1986 show slow variation by year and by income around a ratio of about 30 percent. As of this writing, 1987 figures are not yet available, so a ratio of 0.3 has been used for 1987, although the proper figure could be slightly higher to the extent that state income taxes are not coupled to federal and therefore did not decline with the 1986 tax changes.

With these assumptions, a single elderly person would incur tax liability only for total income of $17,000 or more. (Deductions and exemptions mean that the first $5,500 of non-Social-Security income is not taxed.) For a married couple, taxes are incurred only for total income of $27,000 or more. (The first $10,000 of non-Social-Security income is not taxed.) Because the shelter poverty scale is most appropriate for lower income households, the income ranges in Tables 3.2 and 3.3 do not reach up the points where taxes would be incurred by elderly households receiving maximum Social Security benefits. Households with a given amount of total income but less than maximum Social Security benefits would, of course, incur taxes at lower levels of total income and hence be able to afford less for shelter.

The shelter poverty affordability scale has also been derived for the Boston metropolitan area using the components of the 1981 BLS Lower Budget for Boston, updated using corresponding components of the Boston CPI, and computations of Massachusetts personal income taxes rather than generalized nonfederal taxes (Stone, 1989).

[1]Public housing is an example of this model of categorical assistance. Under the public housing programs, the federal government (and some state governments) fully pay the capital costs of developing the housing, so that, unlike private housing, there are no debt service costs, only current operating expenses. Despite this structural cost reduction, many public housing residents are too poor to be able to afford the rent needed to cover the operating expenses for their units. Their rent is therefore based on an "ability-to-pay" formula, with the government providing operating subsidies which are supposed to cover the difference between tenant contributions and operating expenses.

At present, of course, the formula utilizes the conventional affordability standard, rather than the shelter-poverty standard; adoption of an alternative formula, as suggested in the next sub-section of the paper, would alter tenant contributions and operating subsidies, but would otherwise be consistent with the two-tier framework of housing assistance. However, even with the shelter-poverty formula reducing their share of the rent, perhaps virtually to zero, the very poorest tenants would still be unable to meet their nonshelter needs at minimum adequate level; for them, a third tier of direct income assistance, independent of the capital grants and operating subsidies for their housing, would be needed and appropriate, as indicated.

[2]In the American Housing Survey and throughout this paper, an elderly household has meant a household whose householder or sole member is at least 65 years old. In assisted housing, however, for purposes of eligibility and income determination, an "elderly family" is a household whose head or spouse or sole member is a person at least 62 years old. The figure of 1.4 million elderly receiving housing assistance is based upon the AHS definition and hence consistent with all other figures (U.S. Department of Commerce and U.S. Department of Housing and Urban Development, 1988, Table 7-20).

[3]Tax deductions for mortgage interest and property taxes may be taken only if the taxpayer itemizes deductions. That is, they are available only if the taxpayer does not take the standard deduction; i.e., if total itemized deductions are less than the standard deduction there is no point in itemizing. Of the 13.8 million elderly homeowners in 1985, fewer than 2.4 million (17 percent) had mortgages; of those with mortgages, the median mortgage balance was only $12,700, and the median interest rate 7.6 percent (U.S. Department of Commerce and U.S. Department of Housing and Urban Development, 1988, Table 7-15). The median monthly payment for principal and interest was $170 (of which only interest is potentially deductible), and for property taxes $43 (Table 7-19). Since the standard deduction for a single taxpayer was $2,390 in 1985, and for married couple filing jointly was $3,540, only a very tiny

fraction of elderly homeowners with abnormally high mortgage costs would have benefited from the homeowner deductions. And with the Tax Act of 1986, by 1988 the standard deduction for a single taxpayer 65 or over was up to $3,750, and for a married couple filing jointly with both 65 or older was $6,200.

[4]Federal housing programs involve multi-year contracts, but budget authority is necessary for the entire multi-year sum prior to contract execution. Increases and decreases in budget authority for housing thus impact on actual outlays only gradually and over a number of years. The figure of approximately $15 billion a year for outlays is considerably higher than the levels of net new budget authority since 1982, which have averaged less than $10 billion a year (a decline by 80 percent since fiscal year 1978, measured in constant dollars; Congressional Budget Office, 1988, p. 42). The lower level of net new budget authority throughout the 1980s will manifest itself in sharp reductions in housing outlays over the next decade as existing contracts expire and are not renewed, unless budget authority is substantially increased. Lack of funds will not only prevent expansion of subsidized housing, but, most significantly, will contribute to the impending loss of hundreds of thousands of existing subsidized units (Clay, 1987).

[5] The definitions and regulations for federally assisted housing are contained in 24 CFR Ch. VIII and Ch. IX.

[6]The computed crossover point varies with assumptions about the interest rate on funds borrowed for housing, the discount rate, and the rate of inflation.

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